

Welcome to Objective's Small & Mid-Cap Review

In our last edition we wrote of the lingering hangover from the 2004 party. Developments since then suggest that, for some investors, the hangover has eased. Equity markets have staged a modest rally with many of the hallmarks associated with renewed confidence in growth prospects. Raw material prices remain firm and associated sectors continue to outperform.

But behind the scenes we detect signs of change – at least for the equity markets in developed economies. The Pharmaceutical sector was among the best performers over the last month and there are renewed signs of deflationary pressure in Japan.

Add in the stubbornly high oil price, the likelihood of higher short-term interest rates in the USA and the further emergence of China onto the global economic stage and for us the conclusions remain clear. Companies operating in the developed economies of the West are going to have to run increasingly fast simply to stand still on margins.

Add in also the conundrum of how to reign in sometimes record levels of corporate and consumer debt without pulling the rug out from under the robust growth estimates.

In that context it is little wonder that one of the structural shifts underway in global investment flows is to head East for growth prospects. How unremarkable, but significant, that the finance minister of the fourth largest global economy (the UK) should recently appear as supplicant to China?

In this edition we devote our sector focus to the same territory. We highlight smaller and mid-cap companies (the big ones can look after themselves) with significant exposure to China and listed in London. The list inevitably includes a number of mining companies but not exclusively. We believe that it demonstrates the diversity and scale of opportunity represented by the country estimated by some to overtake soon the UK in economic size and set then to challenge Germany for the third place in the world league.

Andy Hartwill
Research Director

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Month in Review

Market Commentary

What a difference a month makes – or does it? In our last edition we struck a cautious if not gloomy tone for equity markets. Since then most of those have traded sideways or managed to post gains of around 3% in local terms.

Not surprisingly Oil and Gas dominated the sector league tables around the European bourses – at least until Repsol joined the Shell club and restated its reserves. But elsewhere the sector league tables showed a marked shift away from the traditional economically sensitive sectors.

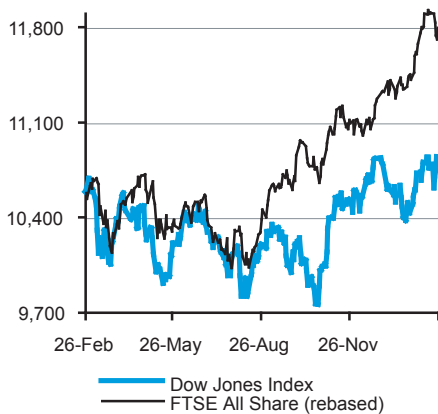
Those so-called cyclical sectors had tended to dominate since the start of the year. More recently, as fears over growth and the rate cycle have emerged, the steam has gone out of the Media and Technology groups in particular and, to some degree, out of SmallCaps. Each of those is typically associated with the economic cycle. By contrast Pharmaceuticals have joined Oil&Gas at the head of the table – helped along of course by the acquisitions announced by Novartis.

Readers may well ask if there is any contradiction therefore between our views last month and intervening events. We believe not but, as always, that judgement depends crucially on timescale. We set strategy on a long-term basis from which perspective the recent moves in the market are well within the volatility bands of the market. For us the more significant event is the easing in the pace of cyclical sectors and the beginnings of an upturn in some defensives.

That pattern is entirely consistent with flattening yield curves in anticipation of economic slowdown. It remains our view that growth in the USA, UK and Eurozone economies will struggle under the weight of personal and corporate sector debt and that margins will remain under pressure from the East (including the former Soviet-bloc countries). The conclusion for us remains that low inflation points to low nominal returns – at least from mature western markets.

Indeed Alan Greenspan provided something of a timely reminder of that in his recent testimony (which once was known as the Humphrey Hawkins testimony). The emphasis put these days on his words (the world was looking for but did not get a repeat of the “measured pace” regarding interest rate increases) reminded us of his “irrational exuberance” description of equity markets back in December 1996. At the time the Dow Jones stood at around 6,800. Today, after a lot of volatility, it stands at around 10,800. On our calculations that represents an annualised growth of less than 6% – comparable to nominal GDP. Latest US data for Q4 2004 shows nominal GDP growing at 5.9%. The outlook for long-term investors appears little changed, at best, compared to the years since the warning over irrational exuberance.

FTSE v Dow Jones (1-yr)



About Objective Capital:

Objective is a leading UK provider of objective corporate research.

We offer investors two levels of insight – a regular survey of the complete small and mid-cap segment, highlighting those stocks where attention should be focused, and our detailed institutional-quality, sponsored research coverage. As always, our research doesn't offer trading recommendations or advice but an objective up-to-date assessment of the prospects, and risks, of the companies we cover.

While the companies we cover sponsor our research, it is always written on behalf of our readers. It is of the essence of our research that it be **independent** — that is opinions, estimates and valuations be solely those of Objective's analyst; **objective** — that is based upon verifiable data; and **transparent** — that is based upon explicit assumptions.

Our research complies with all FSA recommendations as may arise out of CP172 and CP176, i.e., that it be independent of any broking or trading interests; and CP205, i.e., that it comply with standards for objectivity.

But the emphasis here should be on those prospects being the best that may be achieved from mature western markets. The gap between real (10-yr) bond yields and (S&P) dividend yields remains narrow compared to, say, the end of 1999 – on our calculations approximately zero today compared to 1.6% at the end of 1999. Conventional theory suggests that equities today are cheaper relative to bonds than they were at that time.

That conventional theory however needs to be treated with respect. The gap has two components in the Gordon Growth model: long-term growth rate and the risk premium. For equities to rally relative to bonds back to the levels of 1999 either the growth component needs to be revised upwards or the perceived risk premium needs to fall.

However, something has changed since 1999 - and strangely it's not growth. Indeed real growth prospects appear fine in most territories. What has changed is the risk premium. Not only the obviously higher terrorist threat but also the massive level of corporate and personal sector debt that has supported (propped) the equity markets over the last several years. Even the latest robust reading from the US economy shows a slowdown in consumer spending – similar to signs in the UK.

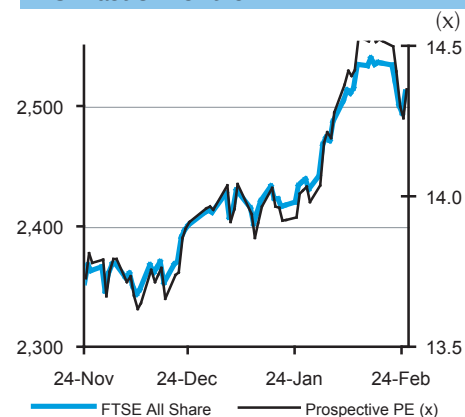
In other words, for developed-market equities to recover their historic highs relative to bonds the bulls do not have to make an argument for a resumption of growth but for a reduction in the risk premium. For us that appears to be unlikely anytime soon given continuing terrorist activity in the Middle East and the policy conundrum of how to manage down the risk from high indebtedness without putting consumption itself in jeopardy?

All of which suggests to us that equities from developed economies are unlikely to make significant re-rating gains against bonds unless the risk premium drops. Add in stubbornly high oil prices and the threat of higher short-term interest rates and the immediate outlook for those is at best flat.

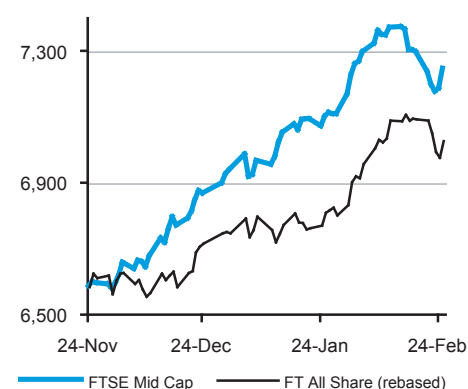
Of course there are regional differences. Renewed signs of deflationary pressure in Japan and the emergence of China into the capitalist world are both at least disinflationary for Western economies. US and UK companies have to run hard simply to stand still on margins. And as we go into the full swing of the corporate reporting season for the UK and eurozone that's a feature to watch for. Little wonder that Pharmaceuticals have begun to outperform and we expect other "defensive" sectors to pick up the pace as the year progresses.

The corollary to all of that should be, in our opinion, a structural shift Eastwards for growth investors. That subject is explored in more detail in this month's Sector Focus.

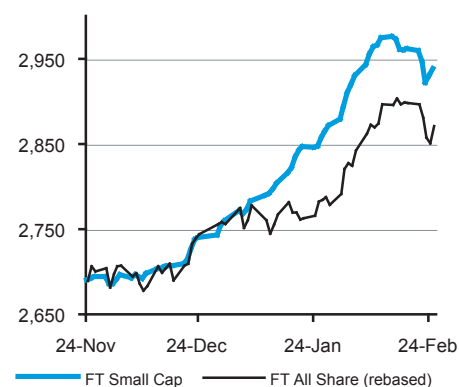
FTSE last 3 months



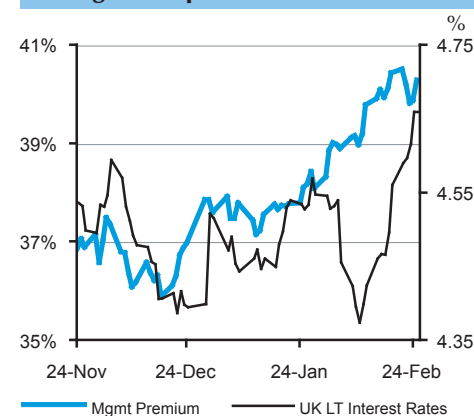
FT Mid Cap last 3 months



FT Small Cap last 3 months

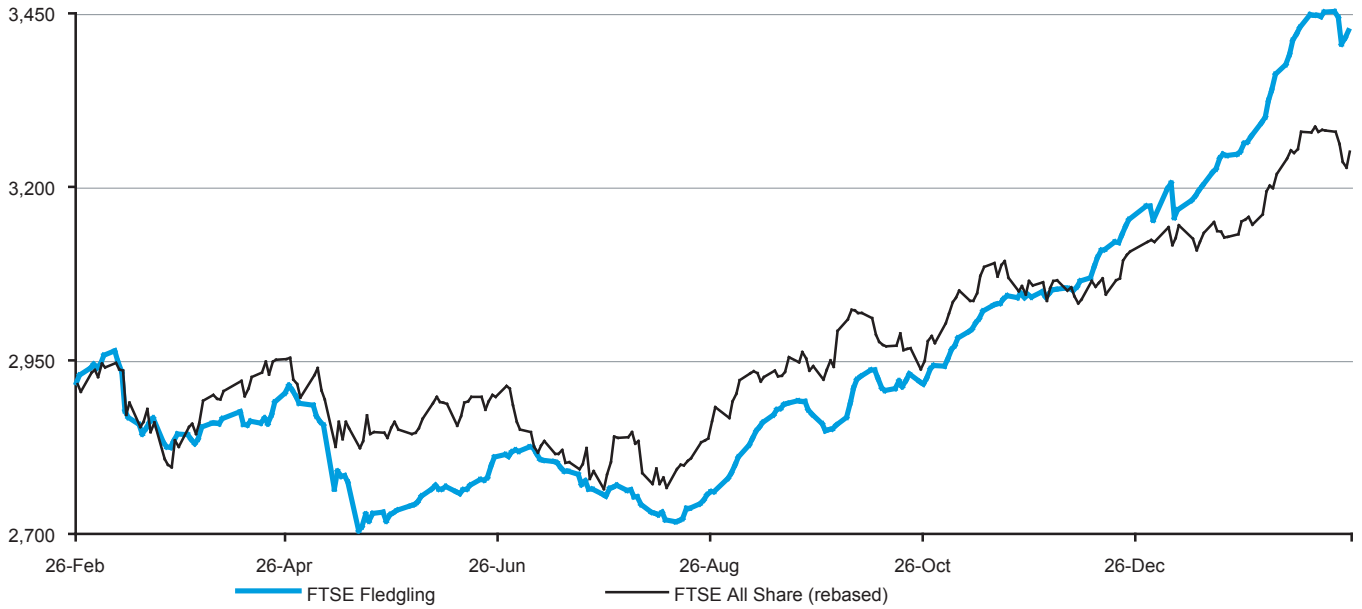


Management premium in the FTSE¹

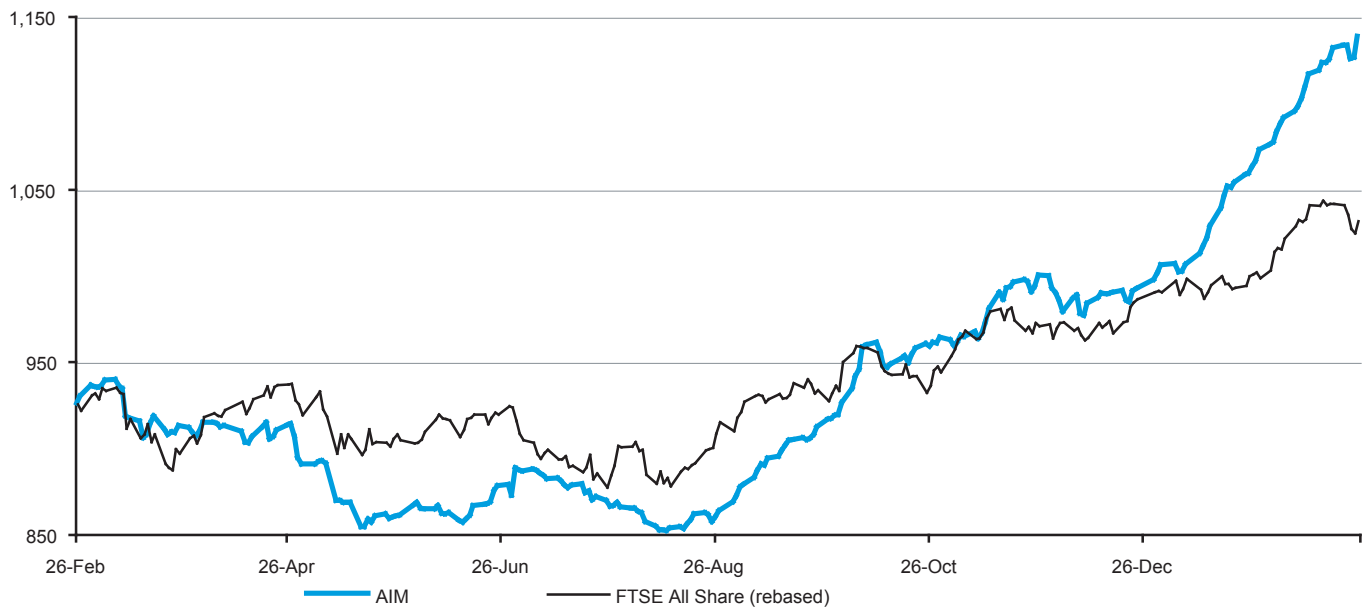


¹ management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate. See page 11 for details.

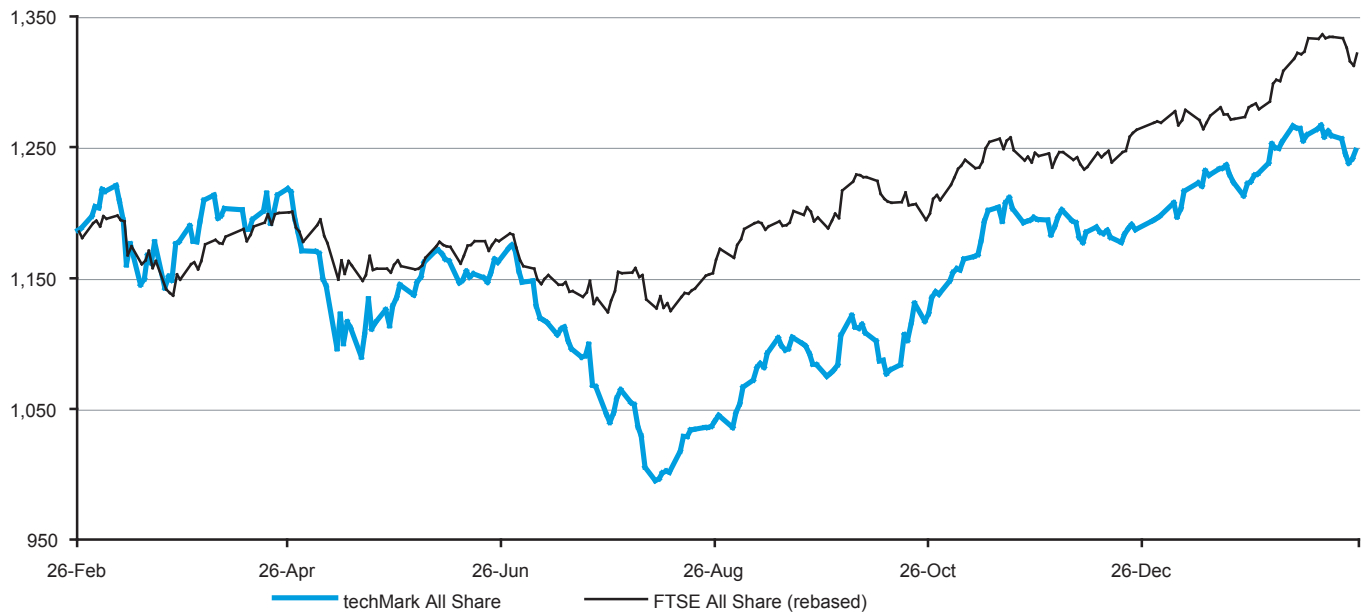
FTSE Fledgling Index v. FTSE All Shares (rebased), 12-mth



AIM Index v. FTSE All Shares (rebased), 12-mth



techMark Index v. FTSE All Shares (rebased), 12-mth



Recently announced flotations

Company	Market	Type	Mkt Cap/ Amnt Raise	Issue Date	Description
Equity Pre-IPO Investments	Aim	Placing	£4.9m / £2.5m	24-Feb-05	Early-stage investments
Castor Investments	Aim	Placing	TBC / £1.0m	28-Feb-05	Investment company
Chian Resources	Aim	Placing	TBC / TBC	28-Feb-05	Resource investments
Freeplay Energy	Aim	Placing	£10.6m / £3.5m	2-Mar-05	Self-powered electronic devices
Sarantel	Aim	Placing	£42.4m / £18.0m	2-Mar-05	Antennas for wireless devices
Global Petroleum	Aim	Introduction	£33.8m / n/a	7-Mar-05	Investment manager
Afren	Aim	Placing	TBC / £8.0m	8-Mar-05	Oil & gas investments
Accuma	Aim	Placing	£15.0m / £4.0m	9-Mar-05	Debt advice
CCO Capital	Aim	Placing	TBC / £0.2m	10-Mar-05	Investments in TMT sector
Harbinger Capital	Aim	Placing	£1.8m / £0.8m	10-Mar-05	Investment company
Perspective Capital	Aim	Placing	TBC / £0.2m	10-Mar-05	Investment company
Libra Natural Resources	Aim	Placing	£3.8m / £1.2m	11-Mar-05	Resource investments
Gasol	Aim	Placing	£2.2m / £1.5m	16-Mar-05	Oil & gas investments
AIM Resources	Aim	Placing	£8.9m / £1.5m	21-Mar-05	Mineral explorer
Belmore Resources	Ofex	Public offer	£1.3m / £0.3m	30-Mar-05	Irish mining company
A J Leisure Holdings	Ofex	Placing	£1.7m / £567,500.0m	TBC	Leisure and Hotels
Altona Resources	Aim	Placing	TBC / TBC	TBC	Mining sector investments
Ardana	Main	Placing	£80.0m / £25.0m	TBC	Reproductive health
Ashingo	Aim	Placing/Offer	TBC / TBC	TBC	
Azman	Aim	Placing	TBC / £0.4m	TBC	Investment company
BCM Capital	Aim	Introduction	TBC / n/a	TBC	Construction
Braemore Resources	Aim	Placing	TBC / TBC	TBC	Resource sector investments
Calyx Group	Aim	Placing	TBC / £6.9m	TBC	Information technology networks provider
Carlton Clubs	Aim		£40.0m / TBC	TBC	Bingo club owner
Commoditrade	Aim	Placing	TBC / TBC	TBC	Commodity investments
Dori Media Group	Aim	Placing	£25.0m / £8.0m	TBC	Israeli TV producer
Eyebright	Aim	Placing	£11.5m / £5.0m	TBC	Elective day surgery
Frontera Resources Corp	Aim	Placing	TBC / TBC	TBC	Oil and gas exploration
Gordian Investments	Aim	Placing	TBC / £1.2m	TBC	TMT investments
Gulfsands Petroleum	Aim	Placing	TBC / £25.0m	TBC	Oil and gas exploration
Isle of Man Int. Brdcstg.	Aim	Placing	£75.0m / £13.0m	TBC	Radio broadcaster
IVT Wireless Technology	Aim	Placing	TBC / £2.0m	TBC	Bluetooth products
Leadcom Int. Solutions	Aim	Placing	£30.0m / £8.0m	TBC	Telecoms equipment
Miras Imaging	Aim	Public offer	£6.4m / £1.0m	TBC	Medical devices specialist
OneTV	Ofex	Public offer	£3.8m / £1.0m	TBC	Digital TV shopping channel
Planet Conservatories	Aim	Placing	£70.0m / £10.0m	TBC	Bespoke conservatories
Plasma Warehouse Grp	Aim	Public offer	£2.0m / TBC	TBC	Specialist Audio Visual Systems
Radiancy	Main	Placing	£65.0m / £30.0m	TBC	Cosmetic treatment company
RDF Media	Aim	Placing	£40.0m / TBC	TBC	TV production company
Shed Productions	Aim	Placing	£40.0m / TBC	TBC	TV production company
Smoking Gun Ent. Grp.	Ofex	Introduction	£4.0m / n/a	TBC	Football management strategy games
TNX Television	Aim	Placing	£50.0m / £15.0m	TBC	Commuter train television
Vividas	Aim	Placing	TBC / £6.0m	TBC	Video technology

Sector in Focus

China

The arguments for investment in China are well rehearsed. At the risk of gilding the lily we will briefly quantify and put into some context the opportunity as we see it. Ultimately almost every company will be affected either by China's role as the "workshop of the world", the world's largest emerging consumer market or its impact on commodity markets.

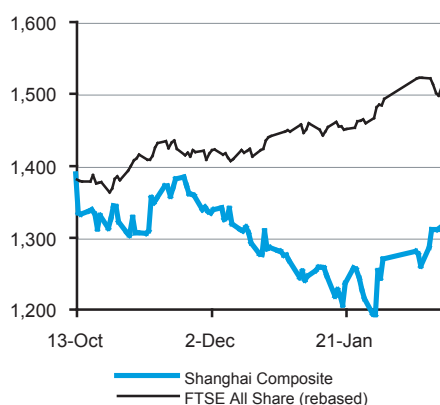
Despite "teething troubles" in the 1980s the economic policy changes of the 1970s have produced an economy whose value has grown four-fold. Many commentators believe that China will overtake the UK as the world's fourth largest economy sometime this year. With GDP growing at the "reduced" rate of some 6% or 7% a year, Germany's number three position is vulnerable before this decade is out. And, by way of an aside perhaps, a demographic (as measured by the CIA) less hindered by the Western pension problem: the proportion of population over 65 in China is, on this measure, 7.5%. The equivalent numbers in the USA, UK and Europe are 12.4%, 15.7% and 16.6% respectively (source: CIA World Factbook).

As China grows so an increasing proportion of its GDP will be driven by personal consumption. As a measure of that, consider electricity consumption, one of the indicators of a "consumer society". In 2001 (latest data available) the USA consumed 3.6 trillion kilowatt hours – some 12,000 kWh per capita. The equivalent number for China is 1,000 kWh per capita – potential for a 12-fold increase in consumption over the long-term.

Hang Seng v. FTSE (rebased)



Shanghai Composite v. FTSE (rebased)



So much for the growth prospects, what about the attendant risks? They range from external concerns over human rights through policy issues to currency risks. In the long run, the mis-match of growing personal wealth, and the "politically bankrupt" communist system is an unpredictable brew. Not to mention the potential for social unrest from those dispossessed by the new economic order and the almost insoluble issue of Taiwan – or at least by peaceful means.

One measure (admittedly inexact) of the perceived risk is the difference in bond yields between China and the equivalent US duration bond – inexact because neither the Chinese currency nor her bonds are yet fully freely traded.

That said we note that a study by the Bank of International Settlement published in September 2004 showed Chinese nominal bond yields at a 1% discount to their US equivalent suggesting a risk perception similar to that of Singapore and Taiwan – at least for the next few years. By contrast the same report showed Indonesia with an 8% premium.

As for the currency risk we, alongside a number of commentators, believe that were the renmimbi to be freely-floated the likely reaction would be a revaluation upwards (reflecting strong real growth). But that prospect appears to be some way off yet. Chinese authorities, and external commentators, argue persuasively that they cannot undertake currency reform unless and until they have reformed the financial system – a process already started but with some way yet to go. To paraphrase an old Chinese proverb, you cross a stream carefully.

Selection of UK-listed companies benefitting from a China exposure

Company	Symbol	Business Segment	Recent Price (p)	Mkt Cap (£m)
Commodity & Energy Exposures				
Caledon Resources	CDN	Mining (gold)	5.1	17.0
D1 Oils	DOO	Bio-diesel (alternative energy)	415.0	90.0
Griffin Mining	GFM	Mining (zinc and gold)	35.0	62.9
Investment				
London Asia Capital	LDC	Specialist investment company	22.0	29.0
Cheaper Sourcing & Manufacturing				
Maelor	MLR	Healthcare for chronic ailments	15.0	5.1
Stadium Group	SDM	Manufactures electronics products	83.5	23.6
Voller Energy	VLR	Fuel-cells (alternative energy)	76.0	17.5
Swallowfield plc	SWL	Contract toiletries manufacturer	99.5	10.8
SDL International	SDL	Translation software	138.0	75.1
Elementis	ELM	Pigments manufacturer	49.8	214.7
Reflec	REF	Reflective chemicals	1.2	6.4
Exposures to Chinese Consumer & Industrial Demand				
Virotec	VTI	Environmental remediation	28.0	54.0
BioProgress	BPRG	Healthcare (eg sugar coated pills!)	77.5	91.0
Pacific Media	PCM	TV shopping in China	0.2	22.6
Wolfson Microelectronics	WLF	Mixed-signal microchips	171.0	174.0
Spirient	SPT	Communications technology	66.3	630.0
Croda	CRDA	Speciality/industrial chemicals	365.3	489.4
Scapa Group	SCPA	Specialist technical tapes/cable compounds	31.0	44.9
Clearstream	CTN	Medical devices	80.5	13.2
Osmetech	OMH	Diagnostic medical devices	2.9	19.2

As with the gold-rush, it's not always the direct investment that is the best opportunity as the performance of the main Chinese indices shows. For investors, the opportunities are in companies who are beneficiaries of:

- selling directly to the growing Chinese market;
- reform and deregulation lead by the WTO process;
- continuing infrastructure development;
- cheaper sourcing and manufacturing opportunities
- or, more indirectly, the impact of demand on energy and commodity prices;
- and ultimately Chinese enterprises looking to develop their own brands, and global distribution as they move up the "value" curve.

These opportunities are not without risk, as the recent announcements by Wolfson Microelectronics, Molins plc, and PZ Cussons' difficulties with developing a profitable distribution network demonstrate. The conundrum for investors is that a direct exposure is not always the best way to play an investment idea,

Evidently there is a balance to be struck by investors between perceived growth opportunities and their own risk tolerance. A myriad of collective direct investment vehicles exists for those of sufficient risk appetite. For others we identify in the table above a number of smaller companies and one active investment fund.

Each of them is London listed and demonstrates the diversity of the opportunities China offers UK companies. Some, unsurprisingly, are mining companies. But others include UK manufacturers with local Chinese production plants and UK suppliers into the Chinese economy. It ranges from sugar-coating pills to bio-diesel and environmental remediation. The list is by no means exhaustive nor necessarily recommended. It should be treated as worthy of further attention and we will elaborate upon it in a sister publication shortly.

Company Survey

From the Model

The Objective Capital model works to identify possible examples of mispriced stocks at both ends of the scale. We try to identify: stocks that have been unduly beaten down by mildly adverse corporate developments; those whose price action may not have fully reflected positive developments; and those whose price may be well ahead of the performance justified by good news, or slow to discount the bad.

In this section of the company comments we attempt to isolate those stocks that fall towards the extreme ends of the distribution of the model's results. We then look in more detail – in a formalised way – at the reasons for their being priced as they are. Considerations for selecting the companies to highlight are standard valuation criteria including PSR, prospective PE relative to earnings growth, ROE, price to cash flow, prospective yield and margins.

We also particularly filter stocks for analyst coverage, preferring those stocks that rank as lower risk and where analyst coverage is thin or non-existent, on the basis that it is here that the scope for mispricing is greatest.

We then select the best four stocks on these criteria as a distillation of the model's results for this month. Where appropriate we provide information on broker forecasts and recommendations, using consensus numbers and recommendations where possible. We leave readers to judge how appropriate these recommendations may be.

How do we “watch” the whole market?

In such a large and diverse group of stocks as the small and mid-cap segment, every investor needs a way of directing their research effort. Because the key to any company is the quality of its management, we focus on an objective assessment of what the market currently pays for the management's ability and scope to improve the value of their company.

Using consensus estimates we can approximate what investors believe they are paying for management's “value add”. Changes in this level tell us when the market's view on the management or its situation has changed – and on which company's our attention needs to be focused.

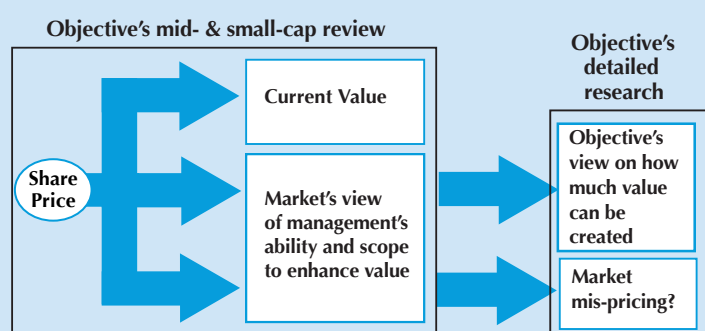
Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

Not a recommendation – but a relative pricing tool

We aim to help our readers navigate the mid- and small-cap segment. Our screening tool is based on the same rigorous framework of risk and return that our detailed objective research uses.

When tracked over time, this model allows us to derive the market's expectation of the increase in value of business on a risk and interest rate adjusted basis. At a glance analysts or investors can see which stocks or sectors are relatively cheap or expensive. We provide the results of our screening tool as a service to our readers.

For more information on the detailed methodology of our screening tool or the interpretation of its results please contact us at +44 (0)870 080 2965.



What we are measuring ...

Management's Ability and Scope:

- to extract lasting improvements in asset and operating efficiency
- to enhance value through synergies from acquisitions, etc
- to enhance value through barriers to entry
- changes in the environment (e.g., de-regulation)
- the value of timing differences between capex and depreciation, tax and other mis-matches

This Month's Companies to Watch

Name (EPIC): Inter Link Foods (ITF)

Sector: Food producers and processors

Basic business: Manufacture and sale of own label, branded and licensed cakes and pastries to major supermarket groups.

Reason for potential mispricing: *Market ignoring recent directors' selling, margin pressure and potentially stretching acquisition.* Founder directors Alwin Thompson and Colin Davies have recently significantly reduced their holdings. This coincided with results that showed sales growing appreciably faster than profits. Inter Link has also recently spent a total of £13m on acquisitions in Poland and a large purchase (Yorkshire Cottage Bakeries) in the UK. Despite raising £8.5m in November, net gearing, close to 100% last year, is likely at best to have marked time this year and further significant funding may be required in due course to reduce it.

Value criteria: Consensus forecasts call for profit growth of 23% this year. The shares currently stand on a prospective PER of 16x on April 05 forecasts, around one times sales, and 15 times historic cash flow.

Analyst coverage: Four analysts cover the stock, including company brokers' Brewin Dolphin and Numis.

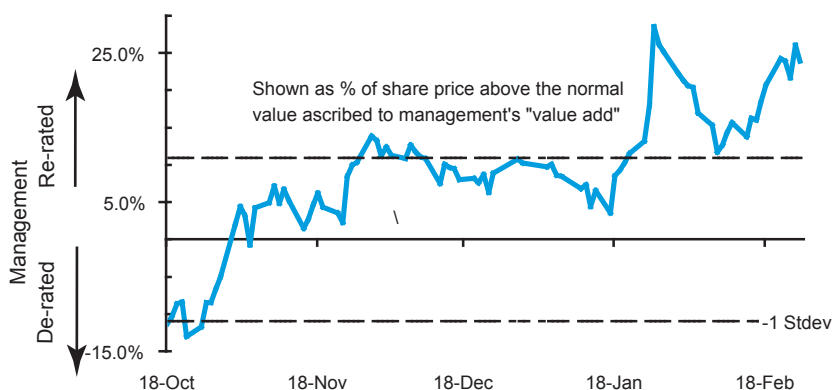
More information: www.interlinkfoods.co.uk

Next results: Preliminary – mid-July

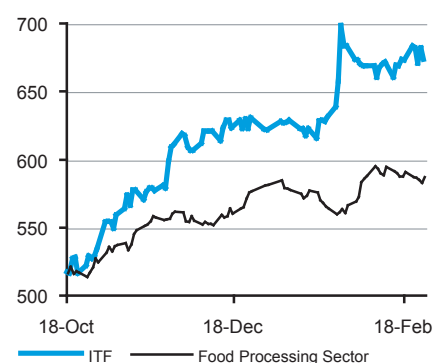
ITF PE & PE relative



Portion of ITF share price attributed to "management value add"



ITF v. Food processing sector

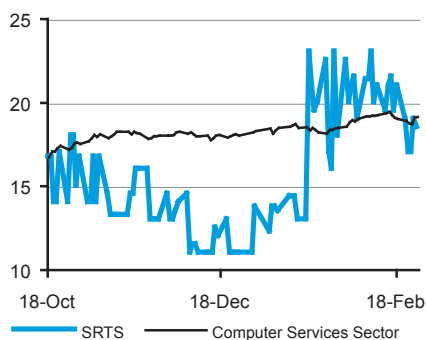


Name (EPIC): Surface Technology Systems (SRTS)

Sector: IT hardware

Basic business: Design, manufacture and distribution of highly specialised machines incorporating semiconductor fabrication technology used in the production of semiconductor related devices to aid customers in solving complex design and production challenges.

SRTS v. Computer Services Sector



Reason for potential mispricing: *Unduly nervous reaction to mildly negative trading statement.* Surface Technology recently reiterated its opinion that results for 2004 would be close to market expectations, notwithstanding the delay in completing some orders, which resulted in delivery being made in the current financial year rather than last year. Significant new orders have recently been obtained for delivery in 2005 to customers in the UK, USA and East Asia. Other business opportunities are being pursued and expected to result in further orders in due course.

Value criteria: The company is loss-making. Losses are expected to contract sharply in 2005. Turnover of around the £18m mark is roughly three times the current market capitalisation. The company was cash flow positive at the operating level in 2003, but saw an operating cash outflow in the first half of 2004. STS is 63.7% owned by Sumitomo Precision Products.

Analyst coverage: One analyst, at the company's broker Rowan Dartington, follows the stock.

More information: www.stsystems.com

Next results: Preliminary – mid-April

Name (EPIC): Incepta Group (ITA)

Sector: Media & entertainment

Basic business: Marketing services and communications, including public relations, events, advertising, design and branding.

Reason for potential mispricing: *Overreaction to lukewarm trading statement.* The company's pre-close season statement noted continuing stability in the markets it serves although it alluded to short-term lack of visibility in the trading environment. Nonetheless strengthening in underlying revenues and operating profitability was noted and the momentum seen in the second half looks likely to continue into the early months of the new financial year. Underperforming businesses are being closed, costs are being cut where necessary (notably in the events business), and the recent upturn in M&A activity is thought to augur well for the future. The company has said it is in talks with Huntsworth over a nil-premium merger. The possibility that a move of this sort could flush out a more aggressive bid contrasts with the recent downward movement in the share price.

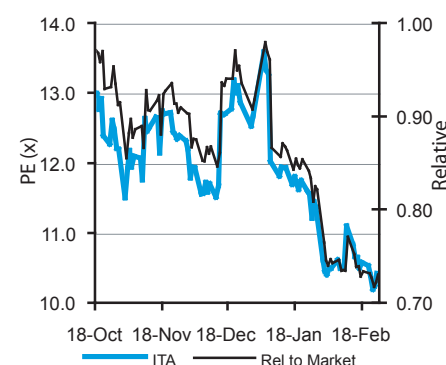
Value criteria: Current forecasts call for profits to rise from £11.6m to £15m in the year to February 2005, a rise of 19%, with similar percentage growth anticipated in the 2005/06 financial year. The near-historic PER is 12.2 and historic price to cash flow is around 11 times. The group has modest borrowings. Market capitalisation is around 50% of turnover.

Analyst coverage: Seven analysts follow the group, including joint broker Collins Stewart and HSBC Securities.

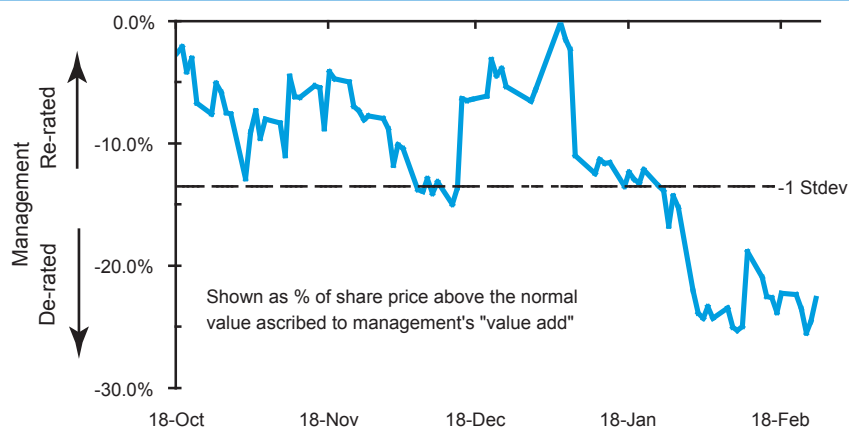
More information: www.incepta.com

Next results: Preliminary – early May

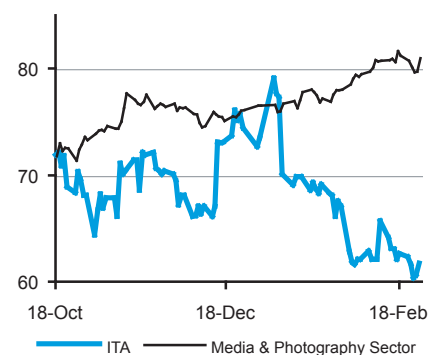
ITA PE & PE relative



Portion of ITA share price attributed to "management value add"



ITA v. Media & photography



Name (EPIC): Low & Bonar (LWB)

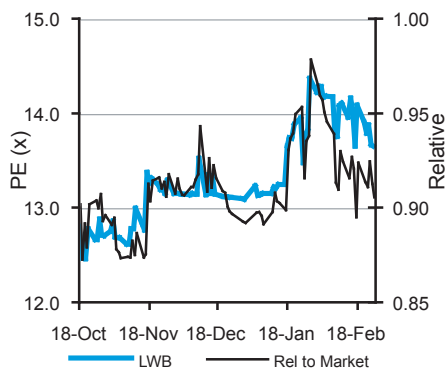
Sector: Construction & building materials

Basic business: High value added design and finishing of plastics based materials, including artificial football pitches, greenhouse shading, industrial flooring and other yarn and fabric based products

Reason for potential mispricing: *Muted response to a solid set of figures.* Latest results beat market expectations and showed sales up 5% and pre-tax profits ahead by 19%. The group has conservative accounting and was a strong cash generator last year. It has net cash balances of £15m. Performance improved across all divisions. Despite this performance the shares barely moved on the announcement. The group expects further progress in the current year, notwithstanding higher raw material costs. Recent acquisitions are expected to be earnings enhancing.

Value criteria: Underlying eps improved 17% last year and the stock sells on a historic PER of 15.6 times. Cash flow is substantially higher than operating profits. The operating cash flow multiple is less than six times. Turnover of £202m compares to a market capitalisation of around £130m.

LWB PE & PE relative

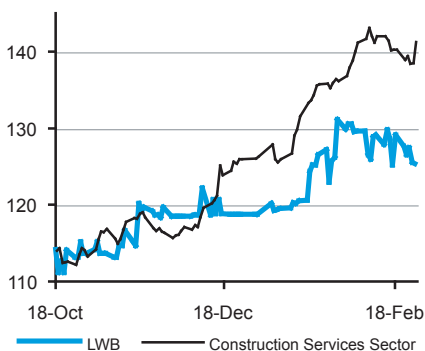


Analyst coverage: Four analysts cover the stock: ABN Amro (Hoare Govett is corporate broker); Aitken Campbell; Rowan Dartington, and Peel Hunt.

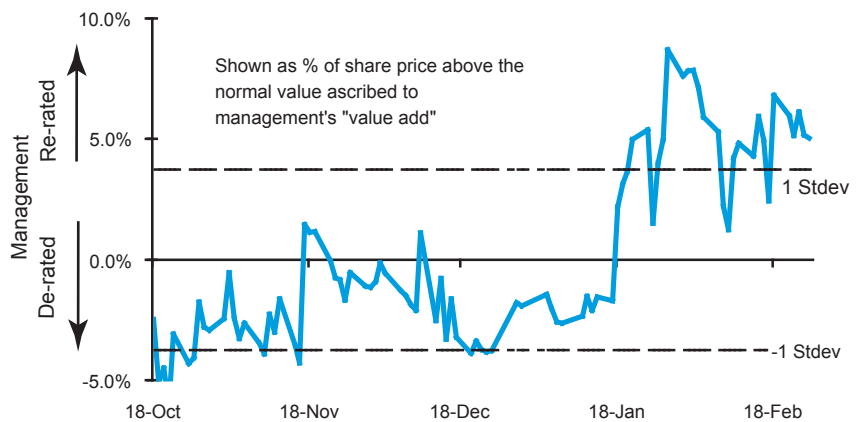
More information: www.lowandbonar.com

Next results: Interim – early July

LWB v. Construction & building mat.



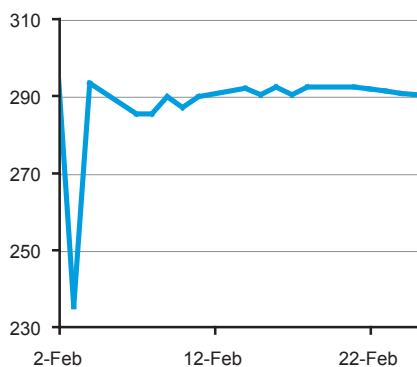
Portion of LWB share price attributed to "management value add"



Newcomer of the Month

This section analyses a recently listed company from a more qualitative standpoint. Futures issues of Objective's Small & Mid-Cap Review will comment periodically on the progress of these companies

CART - price since listing



Price (p)	291
Quote	Main market
Ticker	CART
Hi-Lo since listing (p)	295.5 - 287.5
Shares issued (m)	33.4
Market Cap'n (£m)	97.2
Issue price (p)	235
Net Proceeds (£m)	78.0
Website	www.carter-and-carter.com

Carter & Carter Group (CART)

Carter & Carter joined the main market on 2nd February via a placing raising some £78m net of expenses. There are 33.4m shares in issue. The advisers to the group are ABN Amro and NM Rothschild. Hoare Govett, ABN Amro's corporate broking arm, acts as stockbroker to the company.

Carter & Carter provides support services to global vehicle manufacturer brands in two main areas: training and supplying apprentice mechanics; and services to dealerships intended to improve efficiencies in a number of areas such as sales, repair, recruitment and training.

The company was founded in 1992 and the founders are remaining with the business. The company's growth strategy for the next few years is built around cross selling of the full range of group services to all customers. Although the company has relationships with almost all major vehicle manufacturers, these often do not cover the full spectrum of services the group can offer, and plugging these gaps represents a business opportunity.

There is also scope to add further services, perhaps through bolt-on acquisitions, and similarly to expand further geographically. The company is already represented in Australia, Japan, Singapore and Canada as well as Germany, America and the UK.

The company has forecast that operating profits for the six months to January 2005 before goodwill amortisation will be around £4.6m. The company has forecast at this point in the P&L column because of the sharp reduction in indebtedness that will occur as a result of the issue.

Direct borrowings were in the region of a net £29m in July 2004, and these will largely be extinguished by the proceeds of the placing. Net interest paid for the year to July was £1.8m. Operating profit before goodwill amortisation was £7m for the whole of the financial year to July 2004.

On a crude basis, doubling up the forecast interim profit and adding back three quarters of the likely interest charge suggests pre-tax profits (before goodwill amortisation) in the region of £10.5m for the year to July 2005. On a 30% tax charge, this suggests earnings per share in the region of 22p. No broker forecasts, official or otherwise, are yet available.

The shares have been a good performer since issue, rising from the issue price of 235p to around 291p currently.

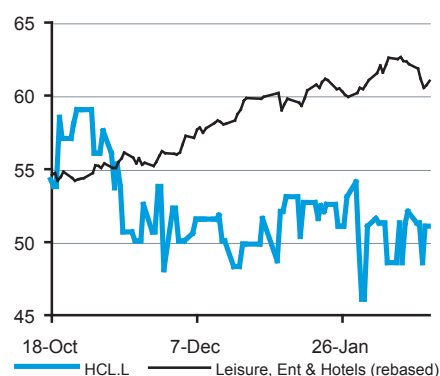
We will continue to update readers on the progress of this business in future issues.

More information: www.carter-and-carter.com

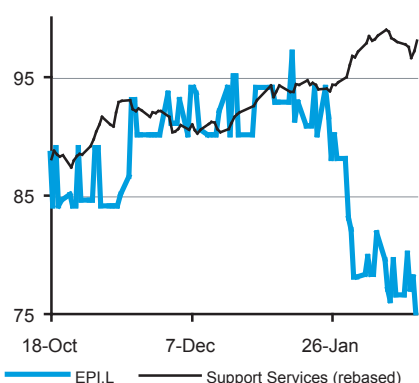
Companies in the News

The following comments relate to other companies highlighted by the model, and those that we have highlighted in previous issues, where news has emerged in the past month or so.

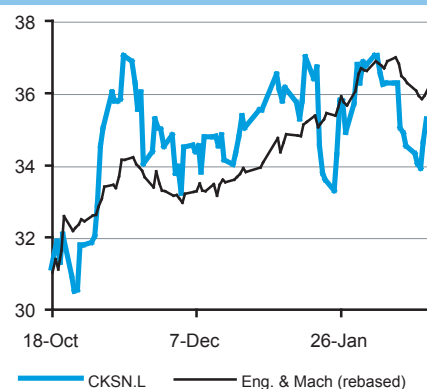
HCL v. Leisure, Ent. & Hotels (rebased)



EPI v. Support Services (rebased)



CKSN v. Eng. & Machinery (rebased)



Honeycombe Leisure (HCL)

Interim results from the AIM listed pub operator showed a fall in operating profits and like-for-like sales. Increased administrative expenses led to a drop in operating profit to £1.37m from £1.63m for the same period last year. Like-for-like sales fell 2.5% but overall first half turnover was £18.41m, up from £16.44m. This increase was mainly due to the inclusion of sales from the pub chain Ma Hubbards, which the group began managing in December 2003

Honeycombe is to continue its strategy of reducing debt through disposals, which have brought in £3.5m to date. Despite tough trading conditions the company aims to secure future growth through its increasing shift towards its management services unit.

Company web site: www.honeycombe.co.uk

EPIC Group (EPI)

Interim results from this online learning company were accompanied by a profit warning. The caution was due to slower than expected revenue growth. Full year results are expected to be below current market forecasts. Pre-tax profits in the half-year rose 8.7% to £893,000 with sales up 3.9%.

Sales levels have been affected by reorganisation in the public sector, which has led to delays in new contracts. Epic hopes that the forthcoming election will clarify the position.

With cash balances standing at £10.14m following share buy backs the company has more cash than it needs and is looking at ways to return it to shareholders.

Company web site: www.epic.co.uk

Cookson Group (CKSN)

In a recent trading statement the international materials science group said that profit for the year before tax and exceptional items is expected to be in line with current market forecasts and significantly higher than 2003.

Sales for the fourth quarter of 2004 were up on both the preceding quarter and the same quarter in 2003. Operating profit also improved over the same period.

The group is to continue its strategy of disposing of non-core operations to concentrate on its core businesses. It hopes to realise £100m from disposals over the next two years.

Company web site: www.cooksongroup.co.uk

Lastminute.com (LMC)

First quarter pre-tax losses were £26.5m against £18.9m for the same period last year. Total transaction revenue increased 80.4% over the same quarter last year to £264.4m, in line with forecasts.

The company is in the middle of a restructuring plan and has so far closed six offices with plans to shut seven more. Once the reorganisation is complete the company will be left with eleven offices and two thousand employees. The reduction target for the current financial year is £13m, which a company spokesman said they were well on the way to achieving.

Rumours of a takeover by online travel agency group Expedia led to a rise in share price early in the month. Sceptics, however, have dismissed the rumours on the basis that major shareholders Fidelity and Standard Life have recently reduced their shareholdings.

Company web site: www.lastminute.com

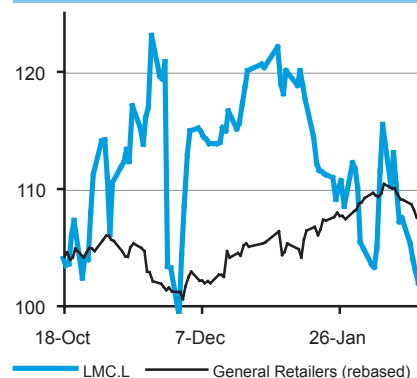
Mondas (MDS)

A challenging first half led to an increase in pre-tax losses, although the company remained cautiously optimistic about the future. The pre-tax loss was £1.45m against a loss of £1.09m for the same period last year. Sales were £1.82m against £1.85m last time. Operating losses were £430,000 compared with £500,000 for the same period last year.

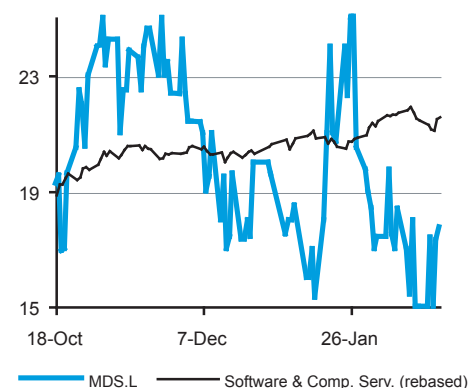
The group, which provides software to the banking and securities and education markets, is currently implementing a strategic review.

Company web site: www.mondas.com

LMC v. General Retailers (rebased)



MDS v. Softwr. & Comp. Serv. (rebased)



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Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Equity Pre-IPO Investments	Aim	Placing	£4.9m / £2.5m	24-Feb-05
Qonnectis	Aim	Placing	£3.5m / £1.5m	24-Feb-05
LHP Investments	Aim	Placing	£1.3m / £0.3m	23-Feb-05
Herencia Resources	Aim	Placing	£1.0m / £0.5m	22-Feb-05
Mediazest	Aim	Placing	£6.9m / £1.4m	22-Feb-05
Pannal	Aim	Placing	TBC / £1.6m	22-Feb-05
Regency Mines	Aim	Introduction	£2.4m / n/a	22-Feb-05
TV Commerce	Aim	Public offer	£3.8m / £1.2m	21-Feb-05
Alternative Networks	Aim	Placing	£44.3m / £4.0m	18-Feb-05
GruppeM Investments	Aim	Introduction	£1.0m / n/a	18-Feb-05
NeutraHealth	Aim	Placing	£2.8m / £1.5m	18-Feb-05
Uranium Resources	Aim	Placing	£2.1m / £1.1m	18-Feb-05
Sumus	Aim	Placing	£11.0m / £3.0m	17-Feb-05
United Carpets	Aim	Placing	£20.4m / £2.5m	17-Feb-05
Ionian Estates	Aim	Placing	£1.2m / £0.6m	16-Feb-05
La Tasca	Aim	Placing	£54.0m / £20.0m	16-Feb-05
Zareba	Aim	Placing	£2.0m / £1.5m	14-Feb-05
Renewable Energy Hldgs	Aim	Placing	£14.5m / £10.0m	11-Feb-05
Sino-Asia Mining & Res. Co.	Aim	Placing	£0.2m / £0.2m	11-Feb-05
Ukrproduct Group	Aim	Placing	£22.1m / £6.0m	11-Feb-05
Eredene Capital	Aim	Placing	£4.1m / £4.0m	10-Feb-05
White Nile	Aim	Introduction	£15.0m / n/a	10-Feb-05
Zenith Hygiene	Aim	Placing	£15.0m / £4.5m	8-Feb-05
Crystalband	Aim	Placing	£2.7m / TBC	4-Feb-05
MCC Energy	Aim	Placing	£13.0m / £3.0m	4-Feb-05
Addworth	Aim	Placing	£2.9m / TBC	3-Feb-05
Black Raven Properties	Aim	Placing	£1.3m / £1.0m	3-Feb-05
Cordillera Resources	Aim	Placing	£2.1m / £1.0m	3-Feb-05
Biofusion	Aim	Placing	£28.2m / £8.0m	2-Feb-05
Carter & Carter Group	Main	Placing	£78.4m / £19.0m	2-Feb-05
Voller Energy	Aim	Placing	£17.0m / £10.0m	1-Feb-05
Mincorp	Aim	Placing	£1.2m / TBC	28-Jan-05
Optimistic Entertainment	Aim	Placing	£26.8m / £1.0m	19-Jan-05
Trading New Homes	Aim	Placing	£2.3m / £2.0m	17-Jan-05
Taghmen Energy	Aim	Introduction	£35.0m / n/a	14-Jan-05

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