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objective corporate research

May/June 2005

Welcome to Objective's Small & Mid-Cap Review

Since the end of April, equity markets have staged something of a rally. Undoubtedly lower oil prices and lower expected rate peaks are benign, but that alone cannot be the explanation. If it were then you would expect the rally to have been joined by eastern markets and, especially, by smaller companies.

The fact that the pattern diverges from the usual expectation suggests that other forces are at work – and the principal suspect must be currency. From the lows at the end of last year the USD has risen almost 10% and for investors it seems the fear of "catching the falling knife" of a weak USD has passed.

The problems at the heart of the EU, and by extension the eurozone and the euro, have been dramatically compounded by last week's resounding "NON". For financial markets the significance was obvious, a further weakening of the euro.

In our opinion this all points to two features which we believe are likely to characterise the second half of 2005. First, that US assets become marginally more attractive through currency appreciation. Second, that the de facto structural fiscal reflation of the eurozone finally becomes augmented by a weakening currency.

This scenario is essentially pro-cyclical for the eurozone and anti-cyclical for the USA. In plain English that implies a gathering defensive bias for the USA but a boost for industrial cyclicals in the eurozone. And that in turn suggests a return to favour for the "SmallCaps" traditionally associated with reflation.

In this edition we devote our sector focus to one of the territories affected by the outlook for the EU's political integration. Integration with the EU – at least economically - is the dominant theme of the new Ukrainian government. With Russia viewing it as part of its sphere of influence, and supplying 80% of its energy requirements, any move westward will be sensitive. A less united Europe can only make that more difficult.

Andy Hartwill
Research Director

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Month in Review

Vantage Point – the summer doldrums and a constitutional crisis: a time to dust off euro industrial cyclicals.

Since the end of April, equity markets have staged something of a rally. The DOW and FTSE100 have risen by some 4% and the major markets of the eurozone by around 6%. The star performance (in our universe) came from the NASDAQ with a gain of over 9% (all changes in local currency). Trailing the pack have been the eastern markets and, surprisingly, the FTSE SmallCap index.

The proximate causes have included a net softening in the oil price, signs of a more cautious consumer and thus expectations of lower interest peaks/ earlier rate cuts – at least amongst the developed western economies.

The pattern appears to be that of a classical cyclical recovery: a bead of sweat wiped from the brow of worried equity bulls after the dizzy pace of going nowhere fast in recent months.

Undoubtedly lower oil prices and lower expected rate peaks are benign for equities. But that alone cannot be the explanation. If it were then you would expect the rally to have been joined by eastern markets and, especially, by smaller companies.

The fact that the pattern diverges from that expectation suggests that other forces are at work – and the principal suspect must be currency. From the lows at the end of last year the USD has risen against the euro from 0.73 (€/$) to 0.80 (rounded). That almost 10% rise appears to us to have removed for investors the fear of "catching a falling knife".

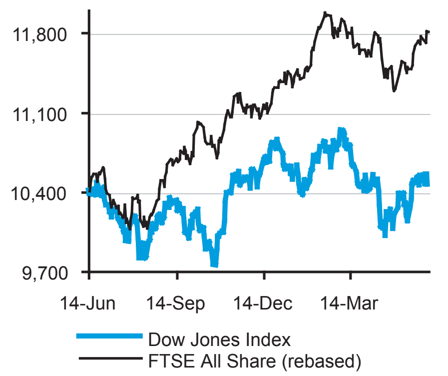
Interest rate fundamentals have moved in the same direction: the Fed still expected to increase further (however slowly) and the ECB apparently hobbled by the slow growth rates and high unemployment rates which continue to characterise the eurozone.

Recent accession countries such as Poland and Latvia may be forgiven a moment's pause to reflect on the structure that they joined in 2004. Candidate countries such as Romania and Croatia may be reminded of a famous line from Groucho Marks when he said "I wouldn't want to join a club that would have me as a member"!

The problems at the heart of the EU, and by extension the eurozone and the euro, have been dramatically compounded by the resounding "NON" just delivered in the French referendum. A similar "NEE" result in the referendum in the Netherlands has only reinforced this. For two of the founding members of the EU and of the euro to vote against the proposed constitution has rightly sent shock waves through the political elite at the heart of Europe.

It is undoubtedly a tragedy that it takes something of tsunami proportions to shake that elite from its complacent slumbers and address the perceived problem of a

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 uptodate 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.

democratic deficit and democratic contradictions at the heart of Europe. But we stray into political territory and that is not our primary purpose.

Suffice to say that the referendum was called by the politicians narrowly on the constitution. The response from the people has been against many of the structures of the EU in general and the euro in particular – where lies the promised economic prosperity?

For financial markets the significance of the vote, in our opinion, is further to weaken the euro. After all, which politician will now attempt to reign in the budget deficit with measures to reduce public spending and/or increase taxation – at the behest of the EU via the Maastricht Treaty?

That Treaty said that members of the eurozone should constrain their budget deficits as proportions of GDP to no more than 3%. And that was supposed to be at the bottom of the cycle! Europe today, some thirteen years on, is struggling to hold that line during a growth phase – however sluggish. Eurostat data shows that, for 2004, the average deficit was 2.7% of GDP across the eurozone. Germany and France each recorded 3.7%. With elections just called in Germany and a new Prime Minister appointed in France it seems that budget deficits are likely to remain as structurally high as unemployment for the foreseeable future – and that's without any recession in the eurozone.

Where does that leave equity investors? As we have suggested before, the big call for 2005 would be the possibility of a turn in the USD. That appears to be underway and we expect can go further as US interest rates rise relative to the eurozone.

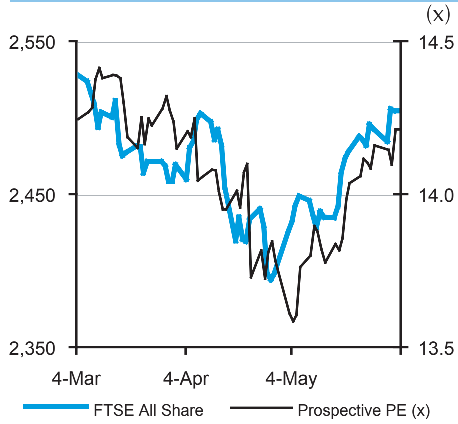
If so then it points to two features which we believe are likely to characterise the second half of 2005. First that US assets become marginally more attractive through currency appreciation. Second that the de facto structural fiscal reflation of the eurozone finally becomes augmented by a weakening currency.

That scenario is essentially pro-cyclical for the eurozone and anti-cyclical for the USA. In plain English that implies a gathering defensive bias for the USA but a boost for industrial cyclicals in the eurozone. And that in turn suggests a return to favour for the "SmallCaps" traditionally associated with reflation.

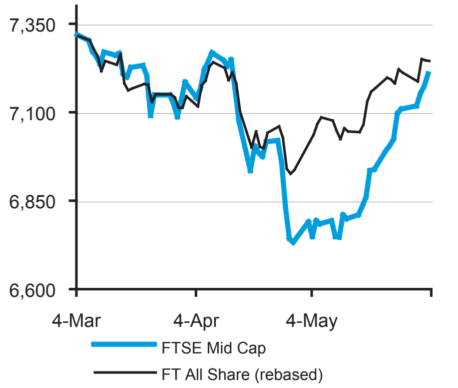
There is of course another fate implied by the "NON" and likely "NEE". In extremis it may cause member states to question their membership of the EU as presently constructed. Any such discussion would be interpreted by financial markets as a clarion call to unbridled, competitive, fiscal reflation as former member states jockeyed for position in global markets and favour with their electorate.

However unlikely a scenario, the result would be a more extreme version of the pro-cyclical strategy we have already identified. In short and in our opinion the equation is simple: **NON + NEE = cyclicals and smaller companies**

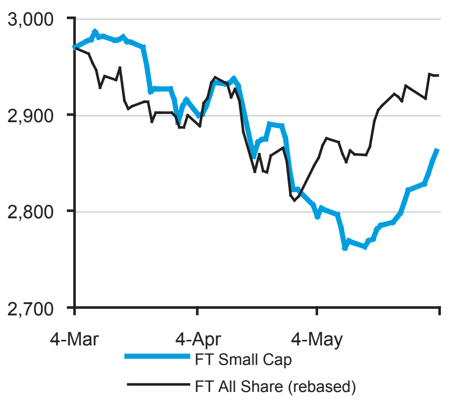
FTSE last 3 months



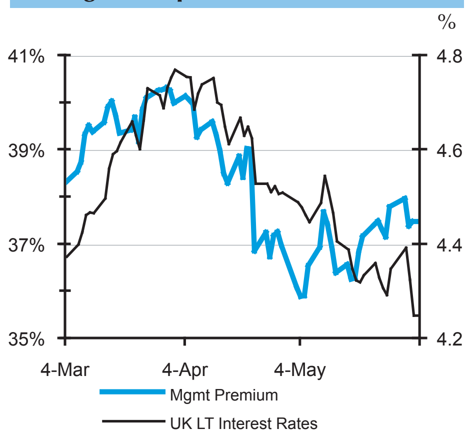
FT Mid Cap last 3 months



FT Small Cap last 3 months

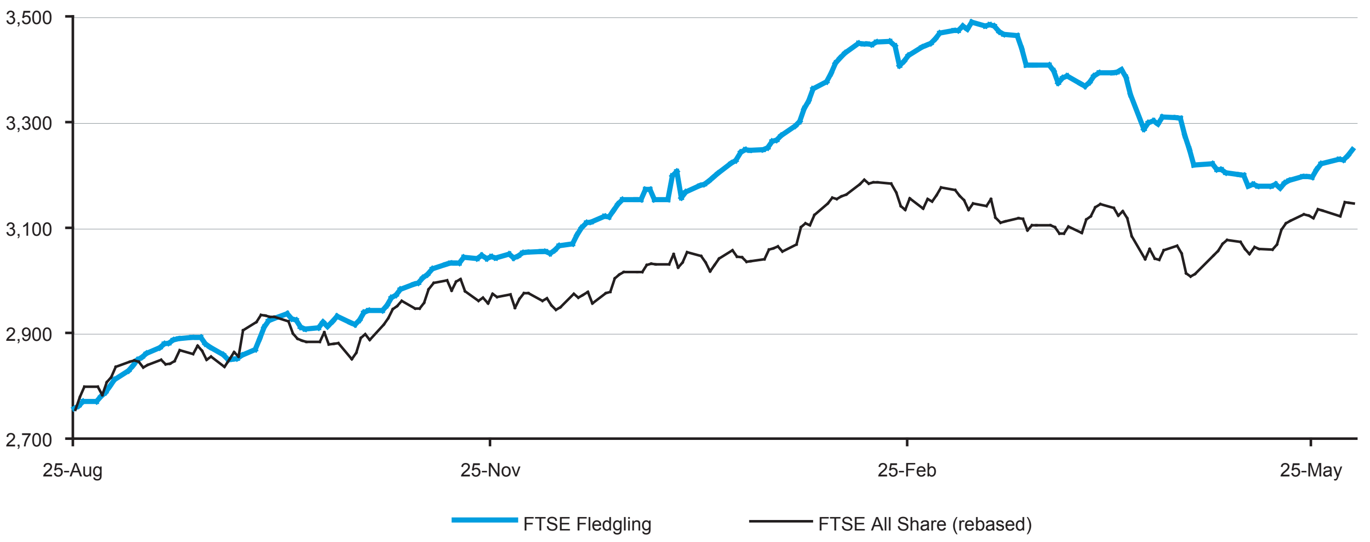


Management premium in the FTSE[1]

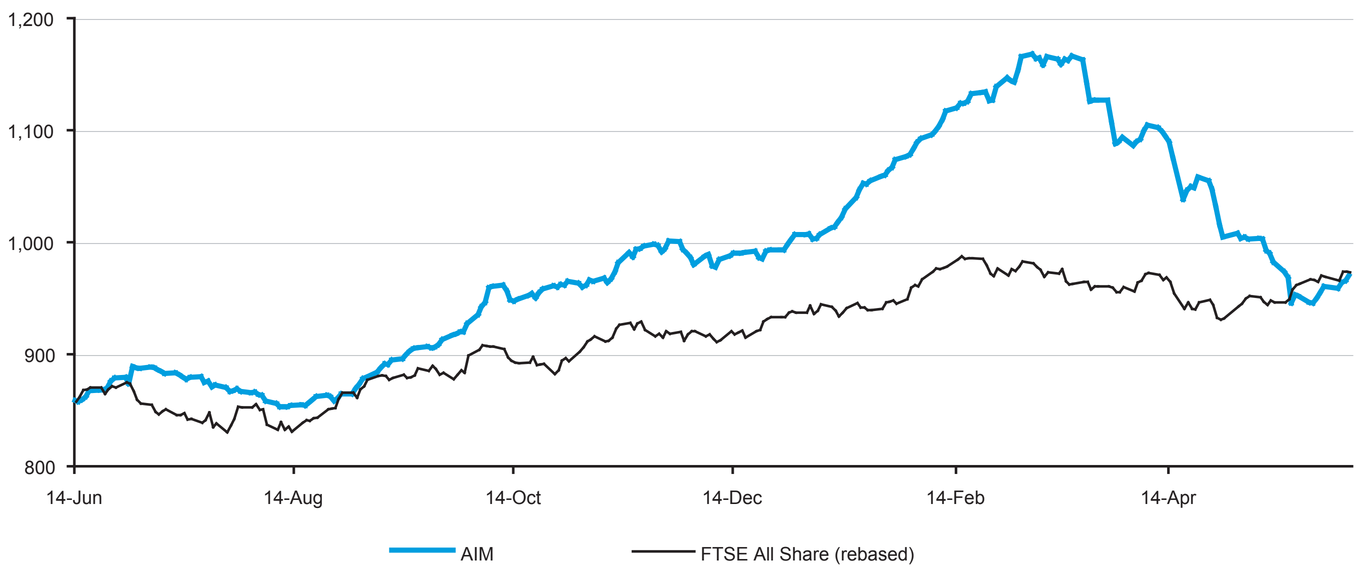


[1] management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate. See page 11 for details.

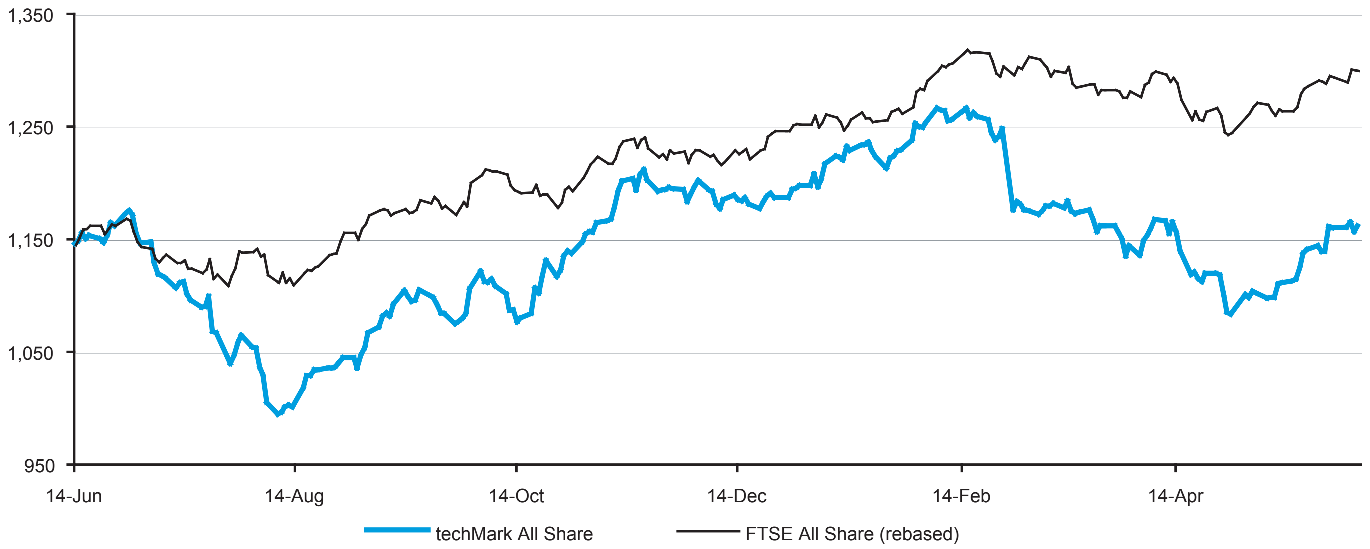
FTSE Fledging Index v. FTSE All Shares (rebased), 12-mth



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
Eyebright	Aim	Placing	£11.5m / £5.0m	27-Jun-05	Elective day surgery
IVT Wireless Technology	Aim	Placing	TBC / £2.0m	27-Jun-05	Bluetooth products
Plasma Warehouse Group	Aim	Public offer	£2.0m / TBC	27-Jun-05	Specialist audio visual systems
Radiancy	Main	Placing	£65.0m / £30.0m	27-Jun-05	Cosmetic treatment company
EG Solutions	Aim	Placing	£15.0m / £3.5m	6-Jun-05	Financial services software
Sportswinbet	Aim	Placing	£28.5m / £3.0m	6-Jun-05	Online gaming
Sunrise Diamonds	Aim	Placing	£1.5m / £0.3m	6-Jun-05	Diamond exploration
Hardy Oil & Gas	Aim	Placing	£75.0m / £15.0m	7-Jun-05	Oil exploration
Billing Services Group	Aim	Placing	TBC / £76.7m	8-Jun-05	Telecoms billing
SMC Group	Aim	Placing	TBC / TBC	9-Jun-05	Architecture and planning
North American Banks	Aim	Placing	£20.8m / £20.8m	10-Jun-05	Closed-ended investment company
Novera Energy	Aim	Placing	£31.8m / £5.3m	10-Jun-05	Renewable energy
Renova Energy	Aim	Placing	TBC / £7.0m	10-Jun-05	Ethanol production
Axeon Holdings	Aim	Placing	TBC / £1.5m	13-Jun-05	Semiconductor intellectual property
Endace	Aim	Placing	TBC / £14.0m	14-Jun-05	Network security
Empire Online	Aim	Placing	£550.0m / TBC	15-Jun-05	Online poker
Granby Oil and Gas	Aim	Placing	TBC / TBC	15-Jun-05	Oil & gas explorer
Centrom	Aim	Placing	£6.0m / £1.3m	16-Jun-05	IT services provider
Property Recycling Group	Aim	Placing	TBC / £7.5m	16-Jun-05	Land developer
Inmarsat	Main	Placing	£1.1bn / £380.0m	17-Jun-05	Satellite operator
Chromogenex	Aim	Placing	TBC / £2.0m	20-Jun-05	Light technology
Southern Rock Films	Aim	Placing	TBC / £0.4m	20-Jun-05	Film producer
Orchid Capital	Aim	Introduction	TBC / n/a	28-Jun-05	Magnesium smelter group
Ashton Penney Holdings	Aim	Public offer	£5.9m / £0.9m	June	Interim executives
Canaccord Capital	Main	Placing	£203.0m / TBC	June	Financial services
Debtmatters	Aim	Placing	£15.0m / £3.0m	June	Debt repayment
Jarlway Holdings	Aim	Placing	£23.0m / £8.0m	June	Chinese concrete pumps
Mapeley	Main	Placing	£500.0m / TBC	June	Property outsourcing
PartyGaming	Main	Placing	£5,500.0m / TBC	June	Online poker
ProStrakan	Aim	Placing	£240.0m / £50.0m	June	Drug development
Rambler Media Group	Aim	Placing	TBC / TBC	June	Russia-focused UK media company
SatCom Group	Aim	Placing	£15.0m / TBC	June	Satellite communications
ubet2win	Aim	Public offer	£5.0m / TBC	June	Gaming company
Caledonia Mining Corporation	Aim	Placing	TBC / TBC	Mid-June	Gold miner
AM2	Aim	Placing	£15.0m / £15.0m	TBC	Investment company
Barracuda	TBA		£300.0m / TBC	TBC	Pubs and bars
BCM Capital	Aim	Introduction	TBC / n/a	TBC	Construction
Beowulf Mining	Aim	Introduction	£5.5m / n/a	TBC	Gold and copper exploration
e-Retail	Aim	Placing	TBC / TBC	TBC	e-Retail is an online retail consultancy group
Eruma	Aim	Placing	£2.6m / £0.9m	TBC	Security systems
Greenkote	Aim	Placing	£6.2m / £2.0m	TBC	Coatings company
KP Renewables	Aim	Introduction	£70.0m / n/a	TBC	Green energy sales
Latitude Resources	Aim	Placing	£14.0m / £10.0m	TBC	Copper miner
Leisure Resources International	Aim	Placing	TBC / £206.0m	TBC	European leisure business
Medco Energi	Main	Placing	£800.0m / £214.0m	TBC	Indonesian oil and gas company
Miras Imaging	Aim	Public offer	£6.4m / £1.0m	TBC	Medical devices specialist
Nyati Resources	Aim	Placing	£1.7m / £1.1m	TBC	Oil and gas exploration
Petrosearch International	Aim	Introduction	TBC / n/a	TBC	Resource sector investments
PHSC	Aim	Placing	£4.0m / £0.1m	TBC	Health and safety training
Planet Conservatories	Aim	Placing	£70.0m / £10.0m	TBC	Bespoke conservatories
Sirius Exploration	Aim	Placing	TBC / £2.0m	TBC	Base metals exploration
Sound Oil	Aim	Placing	TBC / TBC	TBC	Energy sector investments
Talia Technology	Aim	Placing	£30.0m / £10.0m	TBC	Eye screening equipment
TNX Television	Aim	Placing	£50.0m / £15.0m	TBC	Commuter train television

Ukraine

- The Ukraine is a country in major transition. In particular it is widely perceived to be turning from Russian satellite to candidate member of the EU.
- Such change carries unique risks for citizens and for external investors.
- But the rewards are potentially large – and nowhere more so than in energy
- We conservatively estimate that Ukrainian electricity demand will grow by 80% over the next 30 years.
- It needs urgently to develop local production to fill at least part of that rising demand. Currently it imports some 80% of fuel sources a significant proportion of which from Russia
- Reform of the domestic gas market will be needed to encourage exploration and western expertise. As that happens we expect local gas prices to close the gap on those achieved in Europe – recently some 3x higher.
- The overall picture is of an emerging economy fraught with opportunity. For suitably risk tolerant investors that suggests opportunities in energy-related companies and those exposed to the growth in personal consumption.

The political environment

Following the peaceful mass protest known as the "Orange Revolution" in the closing months of 2004, the subsequent election returned Viktor Yushchenko as President. His government is widely regarded as reformist and western facing.

The UK Foreign and Commonwealth Office notes that EU integration is the dominant theme of the new government. That is a move that will have to be managed carefully given the historic relationship with Russia and the Ukraine's significant dependency on its neighbour for oil and natural gas.

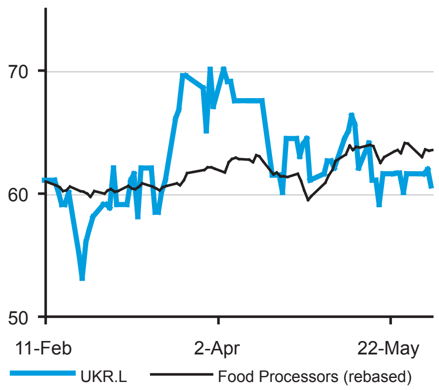
Recent policy decisions have highlighted some of the problems. As global oil prices rose the decision was taken to cap oil prices. The inevitable result was a shortage of supply and a public outcry. Around the same time the decision was taken to revalue the currency upwards against the USD in a move to bear down on double digit inflation. Although by less than 5% the revaluation provoked a domestic outcry: most personal savings are held in USD.

These are early days for the new government. But such moves as these, the assumed pro-Western attitude, a more hostile Russian neighbour and persistent rumours of fraud and corruption at the highest levels will all add to the demanded political risk premium. Against that are potentially above average gains.

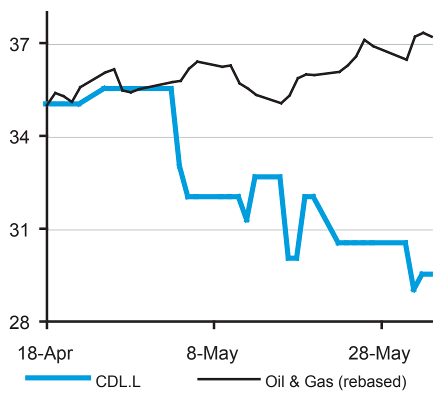
The economic environment

According to the CIA the Ukrainian economy measured an estimated US$299bn in 2004 (PPP). It thus ranks 32nd in the world sandwiched between Saudi Arabia and Colombia. Among its European and central Asian peers (those in or en-route

UKR v. Food Processors (rebased)



CDL v. Oil & Gas (rebased)



Selected UK Listed Companies with exposure to Ukraine

Company	Symbol	Business Segment		Recent Price	Market Cap
				p	£m
Energy market exposures					
Cardinal Resources*	CDL	Oil & Gas	CDL.L	29.5	25.5
Europa Oil & Gas	EOG	Oil & Gas	EOG.L	31.0	18.9
JKX Oil & Gas	JKX	Oil & Gas	JKX.L	144.0	211.2
Consumer & Industrial Demand Exposures					
Cookson Group	CKSN	Engineering	CKSN.L	325.5	620.4
Gallaher Group	GLH	Tobacco	GLH.L	853.0	5,588.0
ITE Group	ITE	Support Services	ITE.L	103.7	300
SkyNetGlobal	SKN	Wireless broadband & lifestyle solns	SKN.L	40.5	4.9
Ukrproduct	UKR	Ukrainian branded food producer	UKR.L	62.0	29.4
Weir Group	WEIR	Engineering	WEIR.L	311.0	639.9
Other					
ESV A/S	ESV	Investment - Ukranian port regeneration	ESV.L	2.3	1.2
Eurogold	EUG	Mining	EUG.L	7.0	15.2
Oxus Gold	OXS	Mining	OXS.L	48.9	140.2
TT Electronics	TTG	Electronic components	TTG.L	172.0	266.3

** Cardinal is a client of Objective Capital*

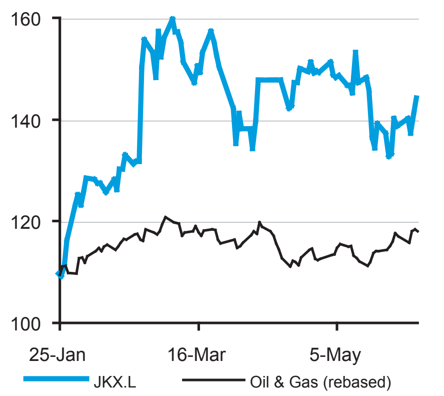
to the EU) it ranks 11th, this time between Belgium and Austria. It's per capita GDP of US$6,600 (*source CIA WorldBook*; ppp; 2004 est) ranks 115th globally – somewhere between the Dominican Republic and Fiji.

By contrast the EU number of US$26,900 is more than 4x greater. Evidently if that gap can be closed (and most likely only through productivity improvements) the prize for citizens and external investors is huge. But of course that implies major structural reform including, almost inevitably, higher unemployment. That task has proved problematic to say the least even in more developed economies such as France and Germany.

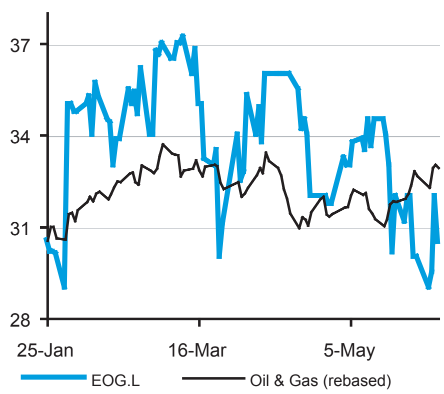
But it is in the area of energy production that arguably the greatest opportunities lie. Imports, especially of natural gas, represent some 85% of the Ukraine's energy demand. The problem for the economy is compounded with the stalled structural reform process. So that today industrial output is less than 40% of the levels in 1991.

Some of those problems are gradually being addressed resulting in recently high GDP growth rates: 4.6% in 2002, 9.3% in 2003 and 12% in 2004est. The 2004 estimate puts Ukraine around number 6 in the world league table among Venezuala, Angola and Ethiopia.

JKX v. Oil & Gas (rebased)



EOG v. Oil & Gas (rebased)



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.

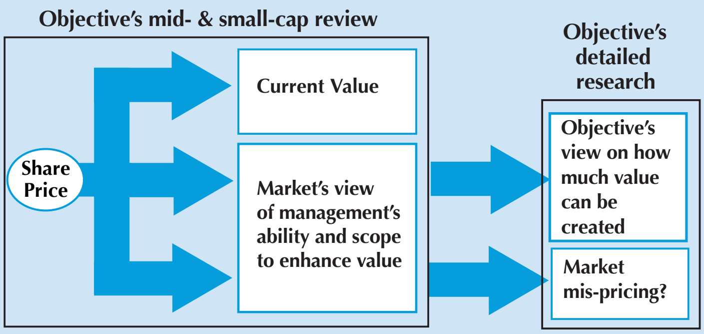
We then select the best stocks on these criteria as a distillation of the model's results for this month. Where appropriate we provide information on broker forecasts and recommendations, using consensus numbers and recommendations where possible. We leave readers to judge how appropriate these recommendations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

Sector: Software and computer services

Basic business: Kewill sells supply chain control software, used by corporate customers to manage distribution and order shipping operations. Around 60% of turnover and close to 75% of profits are derived from the US. The company had a torrid time a couple of years back, and was heavily in loss in the years to March 2002 and 2003. Since then it has restructured to focus on the current core business, and is now growing strongly on the back of reduced costs and more modest development ambitions.

Reason for potential mispricing: ***Apparent market disappointment over 'in line' trading update.*** Interim results in November suggested that the anticipated continuing recovery in sales and profits was continuing. Full year results are expected in early June. A trading update issued in mid April suggested that results would be in line with market expectations. Acquisitions made in 2004 have bedded in well and contributed improved high quality orders and opened up cross selling opportunities. Cash balances at the end of March 2005 were £20.2m.

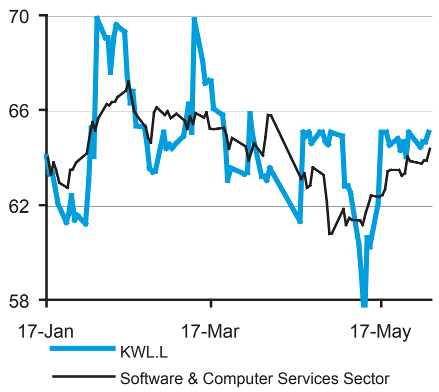
Value criteria: At £20m, Kewill's net cash accounts for over 40% of its market capitalisation. On the basis of an in-line performance the near-historic PER for the year to March 2005 is 16 times, falling to just under 13 times if forecasts for the year to March 2006 are maintained at their current level. Historic return on equity is around 11.1%, and this should have improved markedly in the year to March 2005.

Analyst coverage: Three firms of brokers cover the company: Arbuthnot Securities, Corporate Synergy and Shore Capital. Current forecasts are disparate. The most recent, from Shore Capital, suggest pre-tax of £2.9m for the results due shortly, rising to £3.6m in the year March 2006.

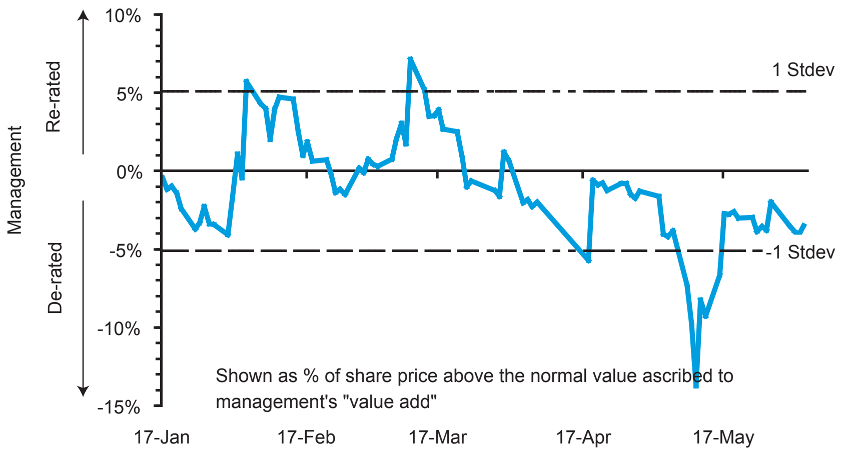
More information: *www.kewill.com*

Next results: Finals – 7 June

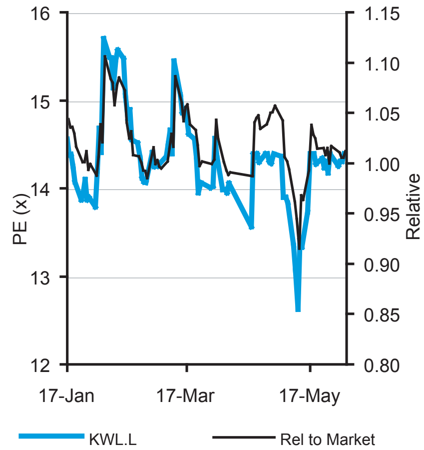
KWL PE & PE relative



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



KWL v. Support Services sector



Name (EPIC)**: Fayrewood** (FWY)

Sector: IT Hardware

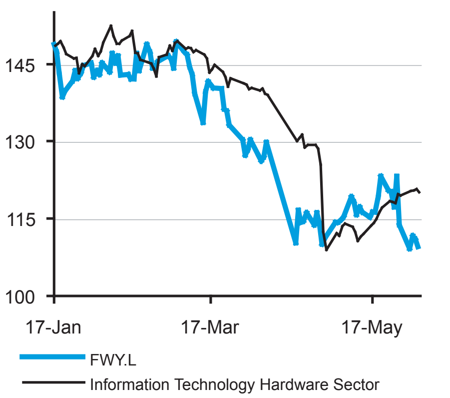
Basic business: Fayrewood distributes computer hardware, software and other IT and computer related products across Europe. Mainland Europe accounts for 74% of turnover and the UK virtually all of the balance. A major contributor to the group's results in Computerlinks AG, a 50.1% owned and separately quoted subsidiary in Germany.

Reason for potential mispricing: ***Placing of previously locked in shares following resignation of chairman.*** After beating market expectation in the last financial year, some wariness appears to have crept into investors' reading of statements from the company. The share price has retreated following the resignation of executive chairman Pierce Casey and his replacement as a non-executive chairman by one of the founder directors, David Kleeman, previously deputy chairman. This looks positive from a governance standpoint, but has resulted in the release from a lock-up of 2.5m shares in the company (around 5% of the total), which have been placed with institutions.

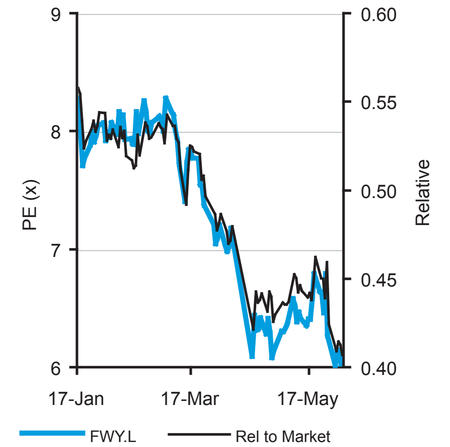
At the same time the company confirmed that trading is currently in line with management expectations. At the time of the preliminary announcement, the chairman predicted 'further solid growth' this year. First quarter results from the German operation showed revenue up by 4.3% and net income up 11.2%. Computerlinks is making a significant acquisition in Scandinavia for a price of around five times pre-tax, giving it exposure in Finland, Sweden, Norway and Denmark. It is expected to be earnings-enhancing from the start.

Value criteria: Current market capitalisation of Fayrewood's share of Computerlinks AG is approximately £30m. By deduction the remainder of the business is valued at roughly £29m. The company's broker has forecast operating profits for this part of the business at a minimum of £12m for the current year, which suggests it is standing on a very low multiple of earnings. The current PER for the group on historic earnings is in the region of 6.8 times. Broker forecasts following

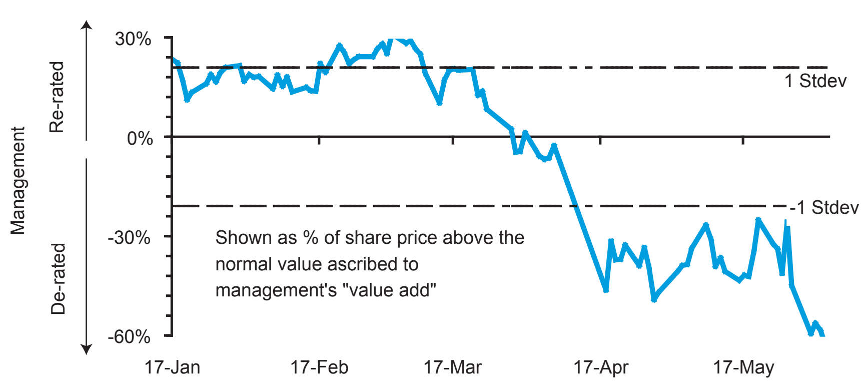
FWY PE & PE relative



FWY v. IT Hardware sector



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



the results suggest pre-tax of £18m in the coming year, versus £15.1m, although growth in earnings will be more muted. Pre-tax of £20m is expected in 2006. Return on equity is around 25% and ROE in the high 'teens.

Analyst coverage: KBC Peel Hunt and Edison Investment Research publish forecasts on the company. KBC Peel Hunt is the company broker.

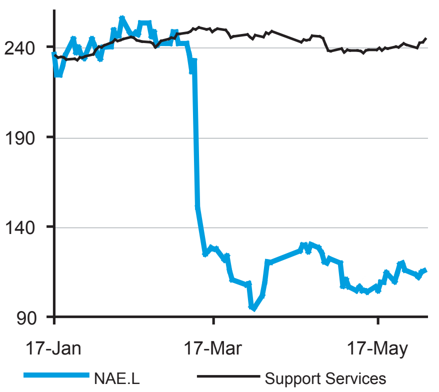
More information: *www.fayrewood.co.uk*
Next results: Interims – early August

Name (EPIC)**: Nord Anglia Education** (NAE)
Sector: Support Services
Basic business: Provision of education and related services. Nord Anglia operates day nurseries and private schools as well as providing other services for the publicly owned education sector, including schools inspectors.

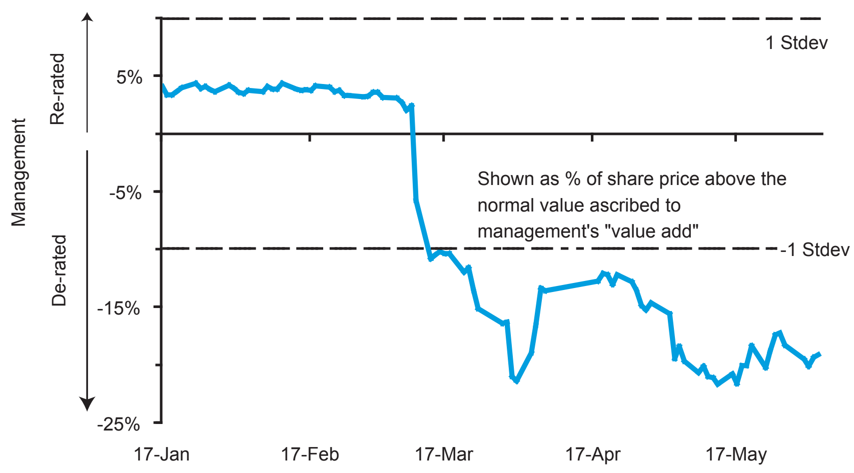
Reason for potential mispricing: ***Setback after recent strong recovery and nervousness over debt levels and possible rights issue***. Nord Anglia has had a torrid year, following its decision to move into nursery education in a big way with acquisition of Leapfrog in mid 2004. While this is a potentially attractive area, with increasing government financial help for working mothers who want childcare, this largesse has produced increased supply, and Nord Anglia has had to cut prices sharply to maintain occupancy.

The result was a sharp setback in the shares following a profit warning in March 2005, compounded by the fact that there were large share sales ahead of the warning, totalling 15% of the free float. Institutional investors now appear to have accepted that this was coincidence, and a recent trading statement appeared to confirm that nursery occupancy had stabilised. Negotiations with bankers over debt levels are said to be proceeding constructively.

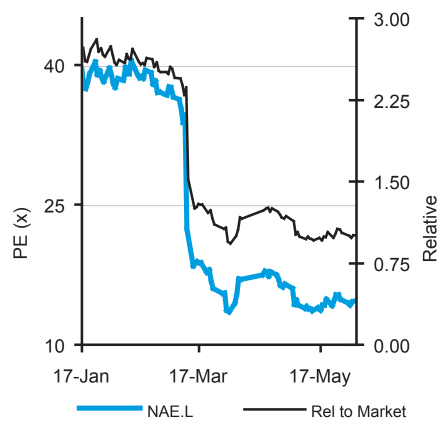
NAE PE & PE relative



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



NAE v. Support Services xector



The latest unsettling announcement has been the resignation of the finance director Lorene Simpson, and the announcement of an interim replacement pending a permanent appointment. While it is speculation, it is possible that this change was due to concern that management control systems have been inadequate in the nursery area, and perhaps also a condition of continuing bank support.

Nord Anglia's saving grace is a reasonably asset rich balance sheet. Although NAV is nominally £60m, goodwill accounts for £21m of this figure. Cash flow has historically been fairly robust. For this reason, suggestions of a deeply discounted rights issue can probably be dismissed and the company can pay down debt from surplus cash flow over the next few years.

Value criteria: Market capitalisation is currently close to tangible NAV. On the basis of revised forecasts following the March profit warning, the company sells on around 12 times earnings for the year to August 2005 and around eight times the projected earnings for the following year. The historic cash flow multiple is around 7.7. Return on equity is in mid single digits.

Analyst coverage: Two analysts currently follow the company: Williams de Broe's Birmingham office, and Baird. Brokers to the company are Brewin Dolphin's Manchester office.

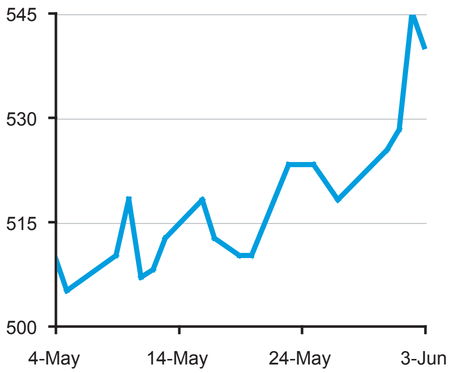
More information: *www.nordanglia.com*

Next results: Interims – end May

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

MNW - price since listing



Price (p)	**537.5p**
Quote	AIM
Ticker	MNW
Hi-Lo since listing (p)	543 - 513
Shares issued (m)	15.34
Market Cap'n (£m)	82.4
Issue price (p)	504
Net Proceeds (£m)	22.5
Website	www.marchnetworks.com
Advisors & Brokers	Evolution Securities
Results for the full year:	Mid-June

March Networks Corporation (MNW)

- Listed in Toronto and on AIM
- Company designs and markets IP-based DVRs for business security
- Quarterly revenue compounding at close to 40%
- Large and growing market since September 11th
- Global market forecast to triple over next five years
- Management has excellent track record in previous similar businesses
- Profitable, with positive cash flow and liquid balance sheet

The company's main business is in IP based digital video surveillance, focused on security applications in the banking, retail and public transport industry. Sir Terence Matthews, the entrepreneur behind Mitel and Newbridge Networks, founded the company. It is based in Canada and listed on the Toronto Stock Exchange.

The company's products enable users to capture and manage video and transaction data simultaneously from, for example, ATMs and EPOS tills and manage the information remotely from a central location.

The company launched its current suite of products in 2002 and since then has generated compound quarterly revenue growth over the last six quarters in the region of 39%. At the end of January 2005, the company had an installed base of 10,761 units, of which close to 8,000 have been shipped over the last six quarters. March offers hardware and software using Linux and flash memory, allowing for a much more reliable product than those based around conventional PC-based systems.

The business has been boosted in particular by heightened awareness of security issues post September 11 2001, which itself led to a sharp increase in demand for systems of this nature. The worldwide market size for products like this is estimated in the region of US$1bn at present and forecast to grow to some US$3bn by 2010, according to a recent Frost & Sullivan report.

March's customers are international and include DHL, Fifth Third Bank, Orange, Royal Bank of Canada, Vodafone, Wachovia, Singapore's MRT transport system and a number of others. Growth is underpinned by the potential to roll out products more extensively through existing clients' networks, and through generating new sales both directly and through key resellers. Selective acquisitions are also planned, and the company expects to broaden its software offering.

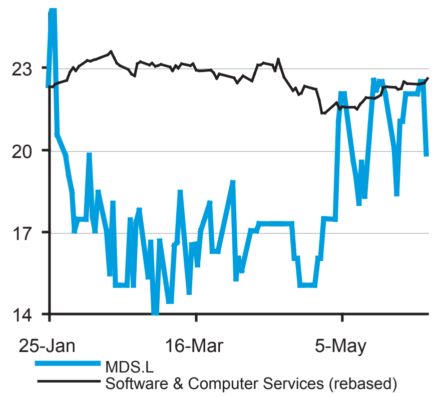
Revenues grew slowly initially, but have accelerated recently. Revenue was some C$9.38m in the year to April 2002, but grew from C$7.56m to C$29.15m in the nine months to January 31, 2005 versus the comparable period in 2003/04. In the nine months period, the company was profitable, producing net profits of C$3.48m versus a loss of C$5.54 m in the same period of the prior year. The company was at slightly better than breakeven in the final quarter of 2003/04.

Net profits for the last twelve months trading were C$3.57m. Over the same period, the company was cash flow positive by roughly the same amount. The company has net cash of roughly C$5.7m in the balance sheet prior to taking into account the funds raised by the issue.

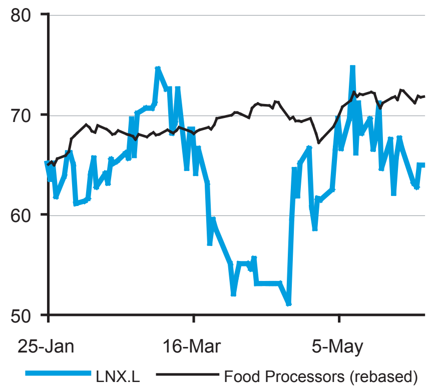
Companies in the News

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.

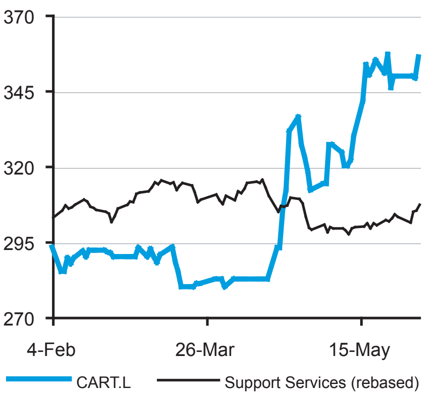
MDS v. Sftwre & Comp. Serv. (rebased)



LNX v. Food Processors (rebased)



CART v. Support Services (rebased)



Mondas (MDS)

In a recent trading update the banking and securities software specialist announced that it had achieved revenue for the financial year of approximately £4.55m, following record-breaking revenues for the second half of the financial year. Profit for the year is expected to be in the region of £50,000. This will be the first profit in the history of the company and compares with a loss of £807,000 for the previous year. The positive performance was attributed to strong revenue growth in the banking and securities division, improving margins in the resource business unit, and reduced central costs.

Lennox Holdings (LNX)

The company, which distributes popular own label British food and beverage brands to Spanish supermarkets and hotels, published its final results. As the company has only recently been admitted to the AIM a pro-forma profit and loss account was included to illustrate twelve months of trading of the existing group of companies. Pre-tax profit was £1.7m on turnover of £10.3m, in line with expectations. The shares have risen by around a third in the past month, largely on the positive tenor of the accompanying statement.

At the present time tourists and ex-pats in Spain buy the majority of goods sold by Lennox. Trading on their success in this niche market, the company proposes to move into neighbouring countries, by forging joint ventures and distribution alliances with major food and drink companies.

Carter & Carter (CART)

Half-year results from the vehicle support services group showed a pre-tax profit of £1.73m against £867,000 for the same period the previous year. Sales were £23.04m compared with £18.69m for the previous first half. Operating profit was £3.68m compared with £2.22m.Current issues concerning MG Rover are not expected to affect the group.

From the first of October Rodney Westhead will be appointed chairman of the company. He replaces Adrian Smith, who will remain on the board as a non- executive director.

Halfords (HFD)

The car parts and cycle retailer expects results for the year to be in line with management expectations. Analysts are currently forecasting pre-tax profit of £77m. Like-for-like sales increased 8.2% over the last year or 8.9% including stores with a mezzanine floor.

Sales grew across all four of its key categories – car maintenance, cycling, car enhancement (particularly satellite navigation systems), and travel solutions. The company continues to focus on controlling costs.

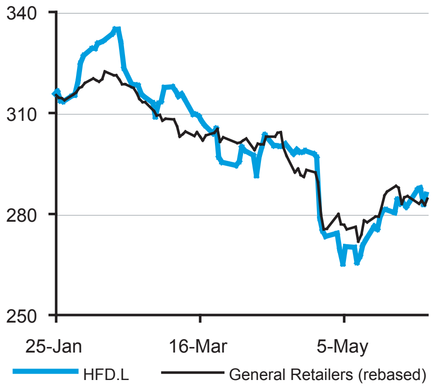
Twelve new stores are planned for 2005 and the company reckons there is scope for a further 100 in the UK.

Honeycombe Leisure (HCL)

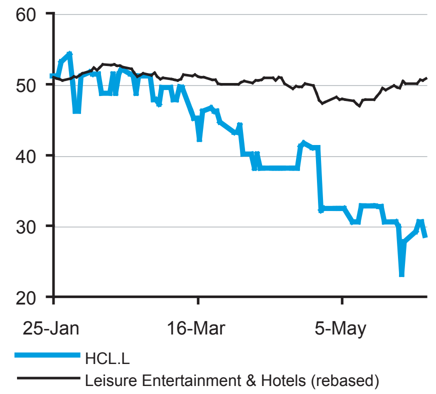
In a recent trading update the pub owner and operator showed a drop in like-for-like sales over the year of 2.8%. Site closures due to refurbishments and poor summer and winter weather were mainly to blame.

A thorough review of the Company's finances has taken place following the appointment of a new finance director in February. Following this review, and in light of indifferent current trading, the company expects results to be announced in June to be below market expectations.

HFD v. General Retailers (rebased)



HCL v. Leisure Ent. & Hotels (rebased)



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Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Advent Capital	Aim	Placing	£76.9m / £40.0m	3-Jun-05
AgCert International WI	Main	Placing	£215.0m / £60.8m	3-Jun-05
Tristel	Aim	Placing	£8.8m / £1.5m	1-Jun-05
RAB Special Situations	Aim	Placing	£40.0m / £40.0m	31-May-05
Global Oceanic Carriers	Aim	Placing	£26.5m / £22.5m	26-May-05
Inspace	Aim	Placing	£72.5m / £10.0m	26-May-05
Powerleague	Aim	Placing	£36.0m / £14.0m	26-May-05
Punch Graphix	Aim	Placing	£100.8m / £20.6m	26-May-05
ToLuna	Aim	Placing	£25.0m / £5.0m	25-May-05
Borders & Southern Petroleum	Aim	Placing	£25.5m / £10.0m	24-May-05
IncaGold	Aim	Placing	£5.2m / £1.5m	24-May-05
Ubiquity Software Corporation	Aim	Placing	£53.5m / £20.0m	23-May-05
InterQuest	Aim	Placing	£13.9m / £3.0m	20-May-05
World Gaming	Aim	Placing	£19.3m / £2.5m	17-May-05
Renewable Energy Generation	Aim	Placing	£25.0m / £25.0m	16-May-05
Metal-Tech	Aim	Placing	£49.9m / £10.5m	13-May-05
Foseco	Main	Placing	£169.2m / TBC	12-May-05
Micro Focus	Main	Placing	£310.0m / £52.0m	12-May-05
Motive Television	Aim	Placing	£1.1m / £0.8m	11-May-05
Hamsard Group	Aim	Placing	£18.0m / £3.0m	10-May-05
Serabi Mining	Aim	Placing	£30.9m / £8.0m	10-May-05
Eastern Mediterranean Res.	Aim	Placing	£4.2m / £2.3m	9-May-05
Visual Defence	Aim	Placing	£45.1m / £18.4m	6-May-05
Ki-Bi Mobile Technologies	Aim	Placing	£20.0m / £10.0m	5-May-05
Magnesium International	Aim	Introduction	£17.0m / n/a	5-May-05
Hichens Harrison & Co	Aim	Placing	£6.0m / TBC	4-May-05
RDF Media	Aim	Placing	£48.8m / £28.0m	4-May-05
Titan Move	Aim	Placing	£2.0m / £0.5m	4-May-05
Castle Acquisitions	Aim	Introduction	£27.0m / n/a	3-May-05
Draganfly Investments	Aim	Placing	£3.4m / £3.1m	29-Apr-05
Inspicio	Aim	Placing	£3.2m / £3.0m	29-Apr-05
Coal International	Aim	Placing	£20.1m / £20.0m	28-Apr-05
IG Group	Main	Placing	£393.0m / £124.0m	28-Apr-05
Spectrum Interactive	Aim	Placing	£31.5m / £6.5m	25-Apr-05
YouGov	Aim	Placing	£18.0m / £3.0m	25-Apr-05