

Welcome to Objective's Small & Mid-Cap Review

I am delighted to bring you the first Small & Mid Cap review since joining Objective — in my opinion one of the most important and exciting developments within the research community today.

Objective sets out to address the problem of the declining research coverage of significant areas of the UK and other stock markets. After more than twenty years working in financial markets, both on the buy and sell-side I can add my voice to that concern, and say also that the decline in the volume has not always been accompanied by any corresponding increase in overall quality!

Against that background comes the increasingly tight regulatory environment not least as represented in the UK by CP176 and CP205 from the FSA.

The need for truly objective research has never been greater and, in our opinion, can only increase. I believe that the discipline that Objective Capital brings to its research and its transparent handling of the conflicts of interest that accompany all research will become an ever more vital resource for any investor.

As the newly appointed Research Director I look forward to developing our methodology so that we can demonstrate not only the objectivity of our thought and process but also our ability to respond flexibly to the needs of all of our clients.

As always, we welcome your comments and feedback as we strive to improve the service we offer our readers.

Andy Hartwill

Research Director
Objective Capital

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Month in Review

Market Commentary

The past month has again been a good one for investors in medium sized and small capitalisation companies. Investors in big caps have arguably done better still, witness the FTSE100's recent surge through 4700 after trading for much of the summer in the 4300-4400 range. The benchmark index currently stands at around 4699, more than 100 points up on its position at the end of the third quarter and over 10% up on a year ago. Add in a 3% plus dividend yield and the total return is starting to look respectable.

The FTSE Fledgling Index excluding investment trusts has managed to rise just a couple of points in the last few days and the FTSE Small Cap Index excluding investment trusts was just four points and change better. By contrast AIM continues to do no wrong. It has risen around 4.4% since 30th September and is an impressive 26% up on a year ago.

AIM's success is putting pressure on its rivals, notably the OFEX market run for many years by John Jenkins. OFEX said recently that it had only a couple of months of cash left at the current rate of 'cash burn', so the past year's IPO drought looks set to claim a most venerable victim.

The problem for OFEX has, I think, been that while it has always been presented as a halfway house between private status and the stock market, AIM (and before it the USM) have always had that aura of respectability that comes with being part of the LSE. This is not to say that OFEX, or the companies listed on it, are in any way disreputable, simply that in a straight choice between the two, most issuers seem to prefer the imprimatur of the main market at one step removed and the (admittedly frequently illusory) promise of liquidity that it confers.

Listing on AIM is by no means cheap, and no soft option either, as anyone who has been involved in satisfying the market's requirements will attest. But it does show that you are serious about becoming a public company, and not simply providing an exit route for disgruntled or hard-up members of the family or the circle of friends who backed your EIS ten years ago.

Your contributing editor is not a disinterested observer here. Almost ten years ago he made the mistake of pumping some cash into an EIS issue by a company run by a friend and, at that time, work colleague. A couple of years ago the business end of this company listed on OFEX, giving some hope to those shareholders in the still-private parent company that we would see some form of exit route opening up.

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 upto-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.

We are still waiting, needless to say. But the seeming imminent demise of OFEX in its present form, at least with its present ownership structure, may be the catalyst for a change that I for one, for wholly selfish reasons, would welcome.

The largest new issue in the past month was the car insurance group Admiral, currently capitalised just short of some £750m with the second largest being Paypoint, featured later in this issue. Paypoint's current market value is in the region of £140m.

Both issues made a solid debut, going to a modest premium. Institutions and private investors alike are still said to be applying quality control standards, although cynics could be forgiven for thinking otherwise by looking at the length of the list.

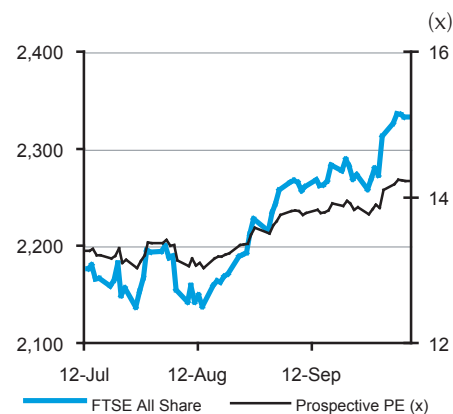
Resource companies are to the fore in the list of pending issues, including Western Canadian Coal, Mercator Gold, Falkland Oil & Gas, and Circle Oil. Investors will doubtless be encouraged by the example of Asia Energy, a coal prospect in Bangladesh, which put on around a third in market value terms as independent consultants published upbeat assessments of the value of the company's project.

The largest pending issue, the Islamic Bank of Britain, is making its debut via a public offering on October 12 and expected to be capitalised somewhere in the region of £100m. Brokers are Keith, Bayley, Rogers.

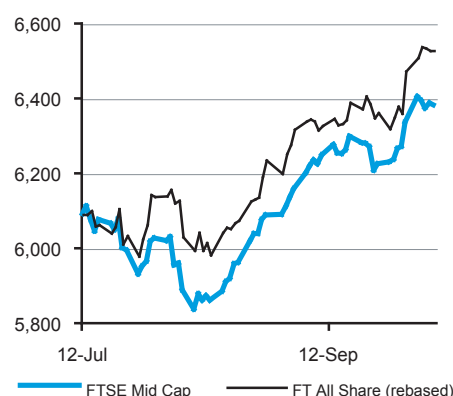
Islamic banking is a hot growth area, with several large banking groups deploying their ingenuity to devise products that look and act like conventional financial services, but which nonetheless satisfy the requirement of Shari'a law, which among other things stipulates no payment or receipt of interest, no use of derivatives, and no involvement in pork, alcohol, armaments or gambling.

Banks like HSBC and brokers like Fyshe Horton Finney have been active in developing financial services for British Muslims, and this new venture should widen the choice available to what is a sizeable and very thrifty segment of the population.

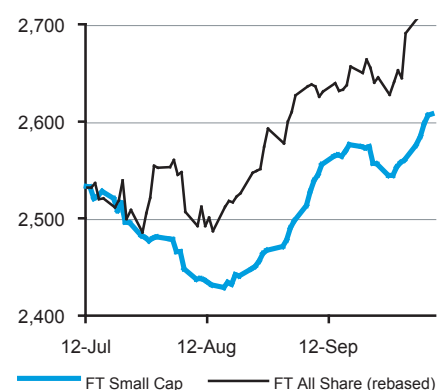
All Share FTSE last 3 months



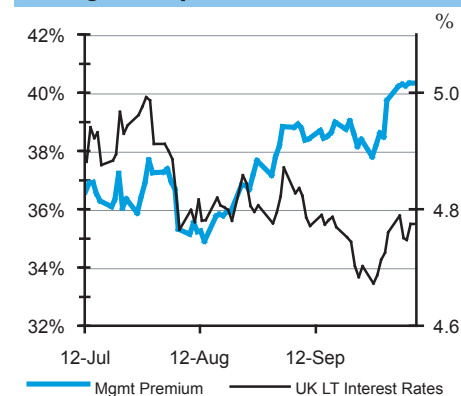
FT Mid Cap last 3 months



FT Small Cap last 3 months

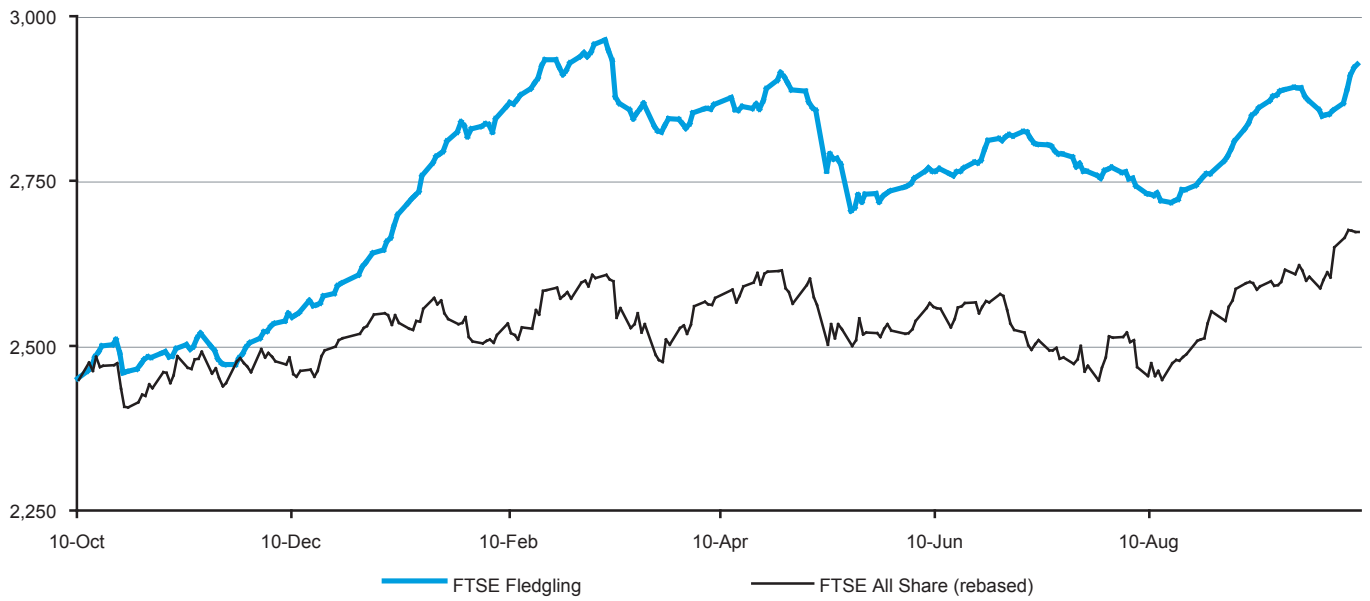


Management premium in the FTSE¹

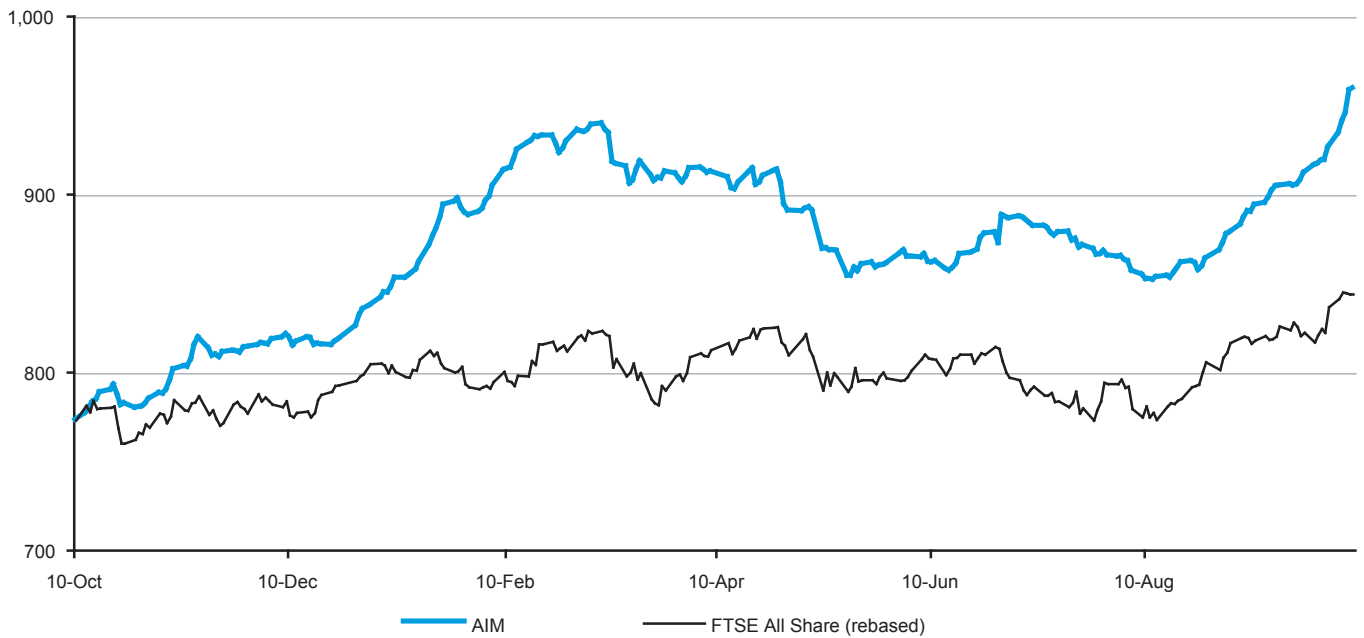


¹ management premium is the % of the FTSE that the market is paying for the "value" management is expected to generate. See page 13 for details.

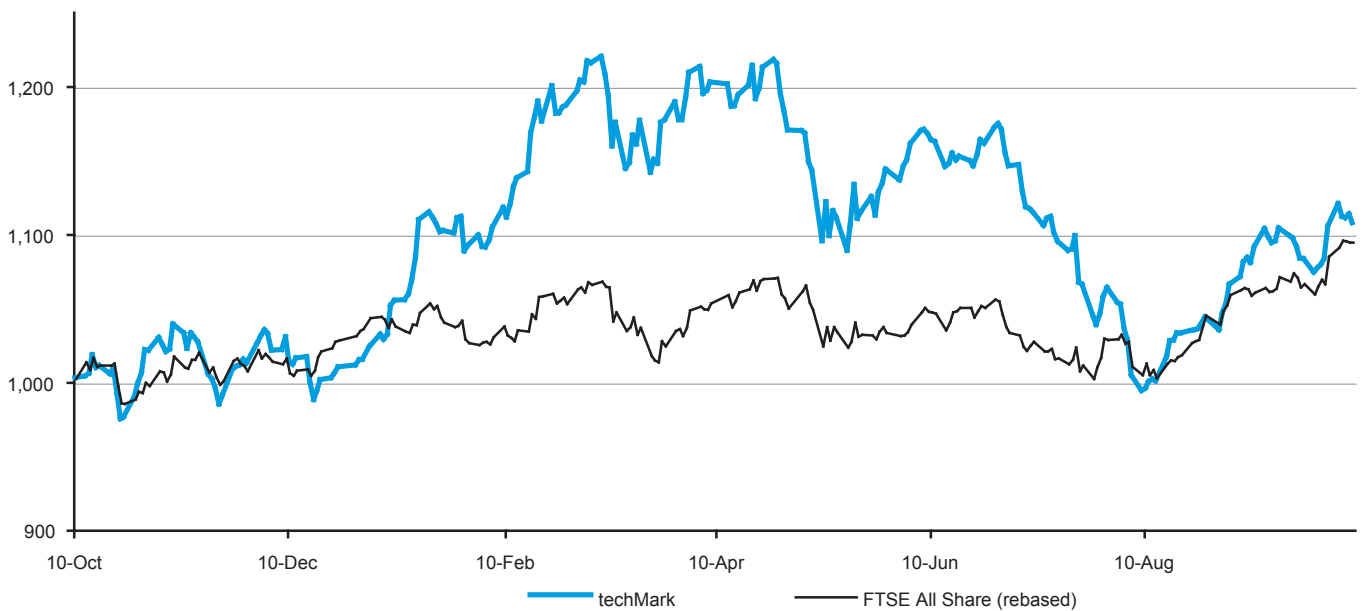
FTSE Fledgling Index v. FTSE All Shares (rebased), 12-mth



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
Mercator Gold	Aim	Introduction	£3m / n/a	8-Oct-04	Gold exploration
MicroEmissive Displays	Aim	Placing	£36m / £17m	28/Oct/04	Low power microdisplays
D1	Aim	Placing	TBC / £12m	25/Oct/04	Oil producer
Hill Station	Aim	Placing	TBC / £1m	25/Oct/04	Premium ice cream producer
Metals Exploration	Aim	Introduction	£1m / n/a	22/Oct/04	Mining investments
Jelf Group	Aim	Placing	£11m / £2m	21/Oct/04	Corporate intermediary
Music Copyright Solutions	Aim	Introduction	£5m / n/a	21/Oct/04	Music copyright administration and exploitation
Circle Oil	Aim	Introduction	£25m / n/a	18/Oct/04	Limerick-based oil & gas explorer
Daniel Stewart Securities	Aim	Introduction	£12m / n/a	18/Oct/04	Corporate finance
eServeGlobal	Aim	Introduction	£20m / n/a	18/Oct/04	Intelligent Networking software and services
Falkland Oil and Gas	Aim	Placing/Offer	£32m / £12m	14/Oct/04	Falkland Island oil and gas exploration
Orca Interactive	Aim	Placing	£35m / £14m	13/Oct/04	Internet Protocol TV software
Islamic Bank of Britain	Aim	Placing/Offer	£105m / £40m	12/Oct/04	Islamic bank
XL TechGroup	Aim	Placing	£73m / £22m	12/Oct/04	Commercialisation of industrial and academic research
Allergy Therapeutics	Aim	Placing	£46m / £16m	11/Oct/04	Allergy vaccine development
Sareum	Aim	Placing	£7m / £2m	11/Oct/04	Drug discovery
Belmore Resources	Ofex	Public offer	£2m / TBC	TBC	Irish mining company
Blue Star Capital	Aim	Placing	TBC / £5m	TBC	Boutique investment company
Carlton Clubs	Aim		£40m / TBC	TBC	Bingo club owner
Cello	Aim	Placing	£23m / £15m	TBC	Holding company for marketing and ad firms
Delling Group	Aim	Placing	TBC / £3m	TBC	Media services provider
ESPRO Information Tech.	Ofex	Placing	£6m / TBC	TBC	Multi-lingual audio guides
Everfor Diamonds	Ofex	Introduction	TBC / n/a	TBC	Diamond exploration in Russia
Eyebright	Aim	Placing	£12m / £5m	TBC	Elective day surgery
Immunodiagnostic Systems	Aim	Placing	TBC / £3m	TBC	Healthcare devices
IPT	Aim	Placing	£25m / £5m	TBC	Internet marketing
Isis Medical Technology	Aim	Placing	£1m / TBC	TBC	Healthcare and pharmaceuticals investment
Physiomics	Aim	Placing	£6m / TBC	TBC	Computer simulation technology
Planet Conservatories	Aim	Placing	£70m / £10m	TBC	Bespoke conservatories
Radiancy	Main	Placing	£65m / £30m	TBC	Cosmetic treatment company
SerVision	Aim	Placing	£12m / £2m	TBC	Israeli wireless technology company
smartFOCUS	Aim		TBC / TBC	TBC	Marketing software products and services
Subsea Resources	Aim	Placing	£20m / £10m	TBC	Commercial salvage
Trading New Homes	Aim	Placing	£10m / £10m	TBC	Property investment
Van Dieman Mines	Aim	Placing	£18m / £2m	TBC	Tin and sapphire mining in Tasmania
VASTox	Aim		TBC / TBC	TBC	Drug discovery company
Waltech Services	Ofex	Introduction	TBC / n/a	TBC	Technology project management

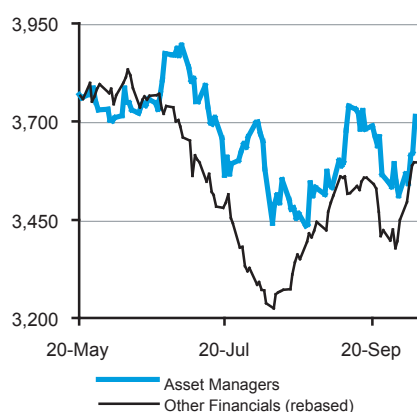
Sector in Focus

Fund management boutiques

The recent upward move in the market brings into focus not just broking houses, but also some of the smaller fund management firms. Stocks like this are creatures of the bull market, with their shares bounding ahead as the market wakes up to the fact that surging stock markets and increased private client activity should translate into more fees and better profits.

But is such a view correct, at a time when private individuals are becoming increasingly disillusioned with the stock market, to the point of either abandoning saving for retirement entirely, or else putting their savings into more tangible forms of investment, like gold, stamps, or art, which, whatever else they might do, avoid lining the pockets of brokers and fund managers?

Asset Mgers v. Other Fin. (rebased)



The conundrum is an intriguing one. On the one hand, the success of buy-to-let property exhibitions and the mushrooming of 'get rich quick' schemes surrounding property investment seem to suggest that British savers have gone back to the old standby of bricks and mortar.

Not just that, but dealers in many forms of collectible also report heightened levels of interest in investment grade material. On the other hand, ISA sales are at an all time low and press comment has highlighted the disincentives to save in conventional pension fund vehicles.

There is a temptation to view this as simply a natural cyclical trend that will correct itself in due course. But it is worth remembering that in Japan's long bear market the asset of choice was a bank deposit or, for the really adventurous, government bonds with minuscule yields.

The lingering attraction to property suggests that in the UK we haven't quite approached these levels of risk aversion and that, if property is the current bubble and tangibles the next one, then investors could ultimately return to individual and collective investment in shares before too long. The question really is 'how long'? Past history from Japan and from America in the 1930s and Britain in the 1970s suggests that an 8-10 year rehabilitation from a speculative splurge is about right, which puts a timescale on mass market return to share investing at around 2008 at the earliest.

In turn this suggests that there could be consolidation in the ranks of small fund management businesses. Investors can play this phenomenon by observing the take-out price of fund management groups in the recent past, and by then performing some sort of calculus to highlight undervalued asset managers today. But there is no guarantee that some sort of Pac-man defence might not happen, with the intended prey moving first to make itself bigger and less digestible by taking over an equally weak rival.

It is also worth noting that some fund management firms have moved quite astutely to extend their franchise away from straightforward stock market based financial services and towards those areas that are contiguous with the tangible asset arena: notable among these are Close Brothers and Teather & Greenwood, both of which have offshoots specialising in tax-efficient investment like forestry and film finance. Others have moved into hedge fund management.

Appraising companies like this for investment purposes comes down to a fairly simple equation, which is essentially a ratio of market value to assets under management. The price paid in most fund management group takeovers can be measured in terms of a multiple of (or rather a fraction of) assets under management. The recent reverse takeover of F&C Group by ISIS is a case in point. ISIS paid roughly 1.5 basis points of AUM to acquire the business. This is somewhat below the heady days when Martyn Arbib sold Perpetual to Invesco at a price which, if memory serves, was around 3 basis points. But that was at the tail end of the bull market.

Bearing in mind that F&C can be considered one of the giants of the industry and no great slouch in performance terms, taking a long term view, this figure probably represents a maximum potential figure for others to be taken out on, at least in the current climate.

The table below shows how some of the other listed pure fund management groups stack up on this basis.

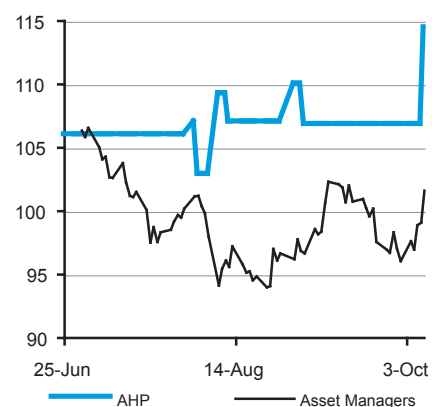
It isn't an exact science, as the table demonstrates. But the obvious conclusion is that Ashcourt and Savoy look cheap relative to the most recent price paid for an admittedly much larger fund management group. IAM's premium reflects its position as a hedge fund manager, the market's current flavour of the month.

The other way of approaching investment in this area from a safety first standpoint is to invest in asset managers that have less fickle investment management needs. Ashcourt Holdings, which manages funds for accountants and solicitors surplus client account funds, is a good example of this. Most firms of this type just want their unused balances to earn a decent return and since ultimately the client will pay, they aren't especially price sensitive either.

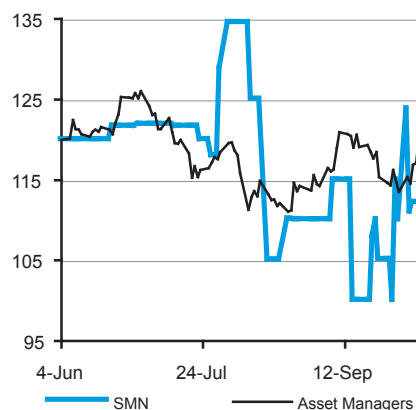
Asset Management Groups - Market Data

Company	Code	Price (p)	Market Cap'n (£m)	AUM (£m)	AUM x1.5bp	% (disc.)/prem.
Ashcourt Holdings	AHP	117.5	6.2	538	8.1	-22.9
Integrated Asset Mgt.	IAM	71.0	9.8	251	3.8	161.1
Liontrust	LIO	313.5	109.6	5,035	75.5	45.1
Premier Asset Mgt.	PAM	60.5	7.2	539	8.1	-10.8
Rathbone Bros.	RAT	710.0	290.9	7000	105.0	177.0
Savoy Asset Mgt.	SMN	120.0	11.0	1100	16.5	-33.3

AHP v. Asset Managers (rebased)



SMN v. Asset Managers (rebased)



Company Survey

At the end of this section we explain how Objective's scanning model works to identify possible examples of mis-priced stocks at both ends of the scale – stocks that have been unduly beaten down by mildly adverse corporate news, or stocks whose price action may not have fully reflected positive developments.

In this section, we 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 filter stocks based on relative risk (using a composite of beta and volatility) and 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 mis-pricing 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 their recommendations may be!

Featured company statistics

Company	EPIC	Price	Price % 1 mth ago	EPS grw forward (%)	Proj. P/E (x)	Proj. Yield (%)	Risk Factor	Beta	Turnover/ Volatility	Cap.	PSR	Pre-tax margin (%)	Consensus	Interim results (next)	Prelim. results (next)
Abacus Group	ABU	261.00	1.67	3.4	18.8	4.00	2	0.24	2.20	1.3	0.76	5.2	Buy	18/5/05	23/11/04
Aggreko	AGK	151.25	-6.25	6.7	15.3	3.83	3	0.37	2.55	0.8	1.18	12.1	Weak buy	16/9/05	1/3/05
Avis Europe	AVE	69.50	-16.36	-34.8	12.6	5.61	3	0.42	3.04	2.0	0.50	-4	Sell	2/9/05	28/2/05
Brammer	BRAM	133.50	-4.91		11.3	3.37	2	0.15	1.84	5.5	0.18	-8.4	Weak buy	1/9/05	7/4/05
Collins and Hayes Grp	CIY	15.00	-18.92	-27.9	5.0	6.67	3	-0.03	2.58	5.6	0.18	11.9	Hold	22/10/04	29/4/05
Dairy Crest Group	DCG	348.00	5.26	6.6	7.1	5.82	2	0.24	1.62	2.9	0.34	3.6	Weak buy	12/11/04	27/5/05
Elementis	ELM	30.75	-13.77				3	0.35	2.47	2.8	0.35	1.5		28/7/05	28/2/05
GKN	GKN	216.00	-2.83	-2.3	9.9	5.51	3	0.83	2.06	2.1	0.48	5.2	Buy	5/8/05	1/3/05
Honeycombe Leisure	HCL	59.50	-4.65	28.1	9.9	5.72	2	0.15	1.55	1.8	0.57	0.9		12/1/05	28/6/05
James R. Knowles	JRK	35.50	-34.58				4	0.15	3.46	4.6	0.21	2.2		20/4/05	12/10/04
London Stock Exch.	LSE	352.75	-3.36	-4.1	14.3	1.73	3	0.69	1.90	0.3	3.40	37.6	Hold	11/11/04	30/5/05
MacLellan Group	MLG	67.00	-10.20	4.3	11.6	1.50	2	0.04	2.04	2.9	0.35	2.1	Buy	28/9/04	7/4/05
Marylebone Warwick	MWB	54.25	18.28				3	0.27	2.46	4.1	0.25	-1.4		18/3/05	23/9/05
MFI Furniture Group	MFI	108.50	-14.75	-53.4	19.0	3.76	3	0.40	2.43	2.2	0.44	8	Hold	22/7/05	25/2/05
NBA Quantum	NAQ	45.50		435.0	10.6	3.30	1	0.05	1.03	0.9	1.11	-5.2	Buy	31/3/05	8/10/04
Peel Hotels	PHO	86.00	2.38	-0.8	10.2	5.12	1	0.00	1.23	1.2	0.83	11.7		12/10/04	7/4/05
Phytopharm	PYM	163.00	6.95	0.0		0.00	4			0.0	0.29	0	Buy	5/5/05	9/12/04
Porvair	PRV	95.00	-4.88	-38.7	27.2	2.10	2	0.13	2.10	1.8	0.55	-44.4	Buy	29/6/05	8/2/05
Protec	PRC	7.50	-9.09	147.6	14.4		4	0.24	3.69	3.5	0.29	0	Weak buy	29/3/05	26/10/04
Somerfield	SOF	134.50	-11.15	33.1	11.6	1.97	3	0.37	3.12	6.7	0.15	1.2	Weak sell	24/1/05	18/7/05
Spectris	SXS	405.25	-6.94	2.7	12.4	3.45	2	0.31	1.75	1.2	0.85	6.4	Buy	14/9/05	16/3/05
Sportech	SPO	8.88	-16.67	-8.6	6.0		5	0.28	6.76	3.9	0.25	1.7	Buy	15/9/05	11/3/05

Name (EPIC): **Phytopharm** (PYM)

Sector: Pharmaceuticals (Main market)

Basic business: Development of pharmaceutical products based on research into the chemical composition of natural remedies.

Reason for potential mispricing: *Market impatience.* Last year Phytopharm disappointed the market because Pfizer withdrew from its involvement in the development of an appetite suppressant based around Hoodia, a plant used by the Kalahari bushmen to stave of hunger during extended hunting expeditions.

Phytopharm subsequently announced that it was in discussions with around 45 potential new licensees for the product, but it has since emerged that the product is likely to take the form of a 'nutraceutical' meal supplement rather than a conventional pharmaceutical product. While this is also a large market, it is a highly competitive one. The betting currently is that Nestle will license the product, but despite the speculation, there has been no firm announcement from the company when this will be confirmed and in the absence of news, the price has continued to slip back.

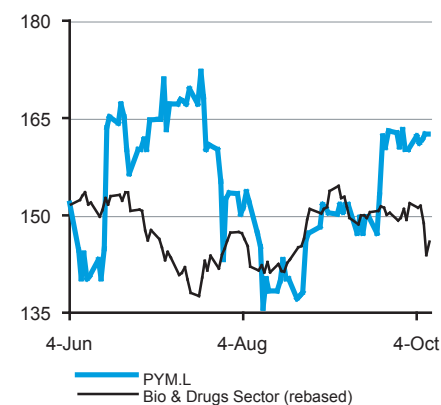
This seems a little unfair, since in the intervening period Phytopharm has made several other positive announcements including the announcement of its intention to list on NASDAQ, the granting of so-called orphan drug status for Myogaine, its treatment for Lou Gehrig's disease, the launch of two canine veterinary products and the successful completion of Phase I trials for a treatment for motor neurone disease. Phase II trials are under way for the group's Alzheimers treatment, in partnership with the Japanese pharmaceutical company Yamanouchi.

Value criteria: Largely irrelevant since the company remains loss-making.

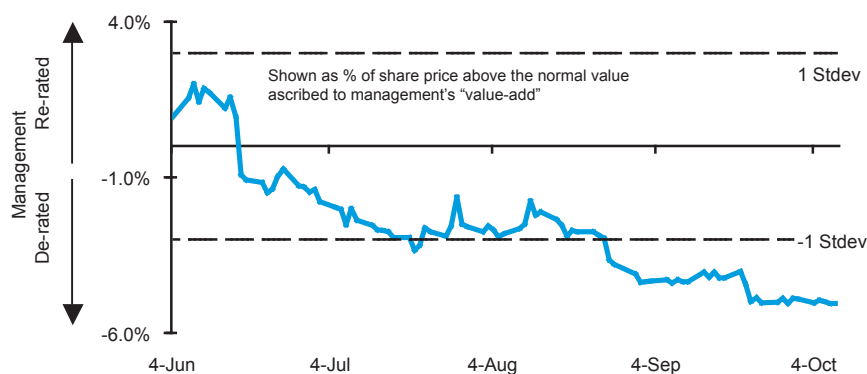
Analyst coverage: Research is published by 6 analysts, with the consensus recommendation suggesting the shares are a 'buy'.

More information: www.phyopharm.com. **Next results:** early December

PYM v. Bio & Drugs Sector



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

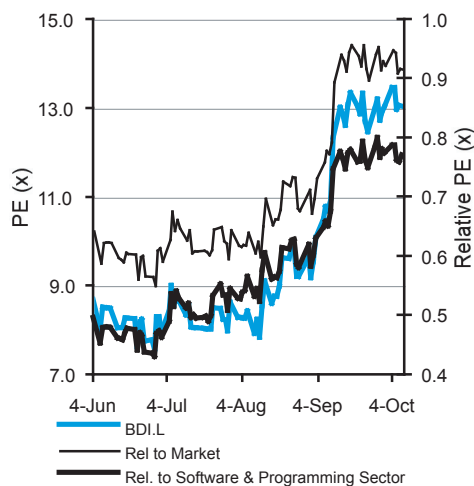


Name (EPIC): Bond International Software (BDI)

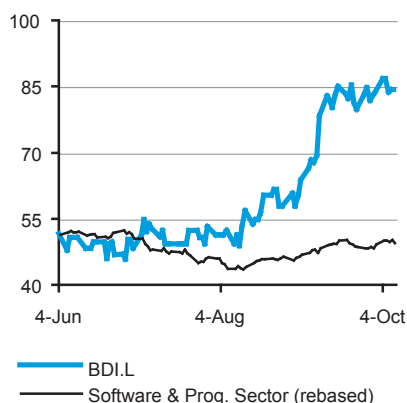
Sector: Software and computer services (AIM)

Basic business: Provision of software, hardware and related support services, primarily for the staffing and recruitment industry. Main product – AdaptHR.

BDI PE & PE relative



BDI v. Software & Programming Sect.



Reason for potential mispricing: *Recently announced results (6th September).*

These appear to have been considerably better than market expectations with pre-tax profits rising from £155,000 to £711,000 in the first half, and the company suggesting that this improvement was continuing in the second half of the year.

The company stated that its order book was currently around 50% higher than a year previously and a number of major sales prospects for both existing and new generation products. The shares rose sharply on the announcement, and are up by more than 40% on the price immediately prior to the announcement. Does this fully reflect this seemingly significant change in the outlook for the company? For the answer, see comments on the value criteria below.

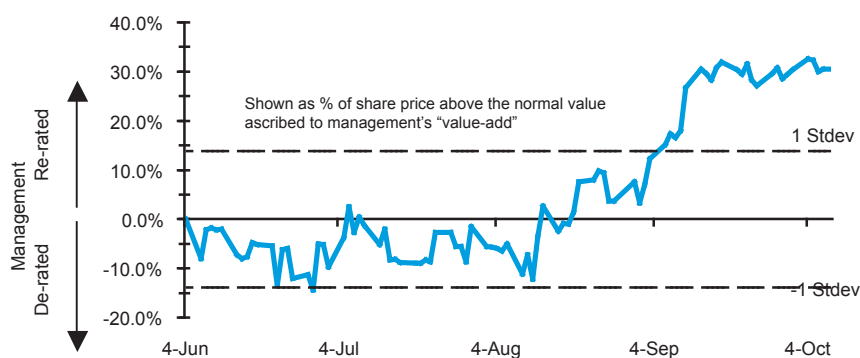
Value criteria: Earnings per share growth this year looks like being around 150%, falling to 28% next year, according to forecasts made by the company's broker following the results. On these forecasts the prospective PER is 15.6 times. PSR is around 2.6 times based on last 12 months sales. Historic ROE is 10%. Price to after tax operating cash flow is 13.9 times.

Analyst coverage: The company's broker, Seymour Pierce, is the only firm currently publishing research on Bond. It currently rates the shares a 'buy'. The firm's analyst, Alan Matthews, revised up his 2005 profits forecast following the results from £4.3m to £5.3m, and earnings forecast up from 4.3p to 5.3p.

More information: www.bondadapt.com

Next results: mid-February

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



Name (EPIC): Peel Hotels (PHO)

Sector: Leisure and hotels (AIM)

Basic business: Operation of hotels in the UK. According to information on its web site, the company currently operates 11 hotels in provincial towns and cities in the UK, including Bristol, Edinburgh, Newcastle, Leeds and Nottingham. The company has a famous pedigree. It was founded and is currently chaired by Robert Peel, a highly experienced hotelier and son-in-law of the late Sir Maxwell Joseph, a legendary hotelier and property developer active from the 1950s to the 1980s.

Reason for potential mispricing: *Incorrectly anticipating results.* Price has been quietly firm in the past month. There has been no significant company news since the AGM in April when the chairman reported that he 'remain(ed) confident in the prospects of the hotels we own and (was) actively seeking planning gains to expand the facilities, whilst carefully reviewing acquisitions and management contract opportunities.' Interim results are expected in the next few days, shortly after this edition of our Small & Mid-Cap Review is published.

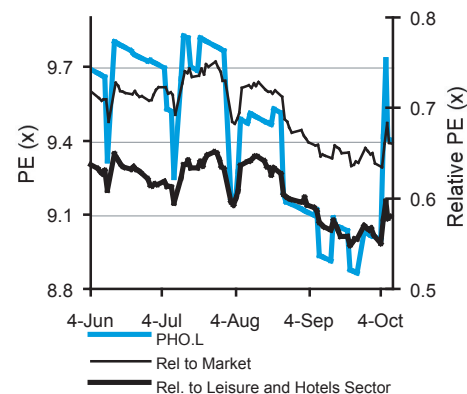
Value criteria: Gearing is high (100% plus) but Peel has a cap and collar on its interest rate payments that paradoxically mean that its interest charge will fall slightly in the event of further rises in UK interest rates. On the basis of current expectations of unchanged profits for the year February 2005, Peel sells on a prospective price earnings ratio of about 10 times and at less than 6 times operating cash flow. The average PER for main market leisure and hotels companies is 15.3x. PSR is 0.84. Return on equity is around 7%, which is almost certainly less than the company's cost of capital.

Analyst coverage: Peel is covered only by KBC Peel Hunt, the company's corporate broker, which declines to make a recommendation on these grounds.

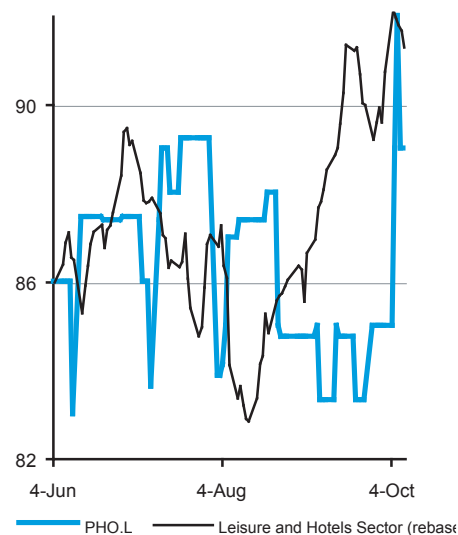
More information: <http://v9server.co.uk/peelh/>

Next results: Imminent

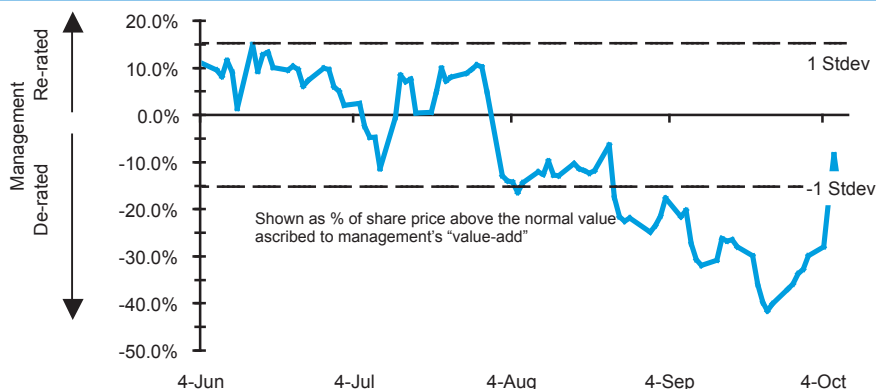
PHO PE & PE relative



PHO v. Leisure & Hotels



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

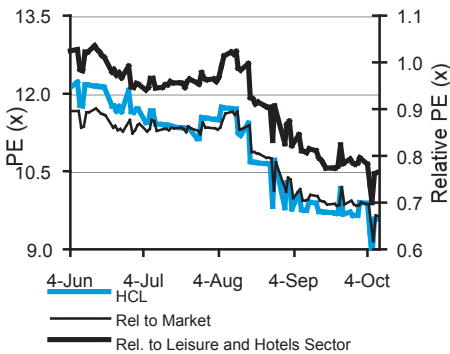


Name (EPIC): Honeycombe Leisure (HCL)

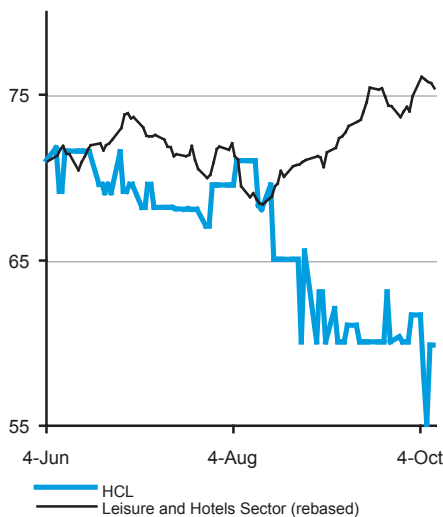
Sector: Leisure and hotels (AIM)

Basic business: Ownership and management of public houses. According to its web site, the Preston-based Honeycombe operates some 95 managed public houses primarily in the North of England. These range from town centre 'venue bars' to waterside inns and hotels.

HCL PE & PE relative



HCL v. Leisure & Hotels



Reason for potential mispricing: *Possible overreaction to recent announcements.*

The shares have been a weak market recently, most probably because of a mildly bearish trading statement and the resignation of the finance director. On 14th September, the company issued a trading statement. This noted that trading since the end of Euro 2004 had been tough and, coupled with bad weather, this had meant that like for like sales in July and August were 3% lower than the same period of the previous year. The group did, however, add that it had reduced gearing and won further pub management contracts in the period in question.

The reduction in gearing appears to be marginal, from 200% to 195%, but high gearing is not necessarily indicative of high risk in businesses like this, which have a high freehold property content. Further disposals of marginal sites are expected.

The resignation of the finance director, Paul Snape was announced on 21st September. Since Mr Snape is continuing in his role until the end of October to facilitate an orderly handover of responsibilities, this departure appears to be amicable and voluntary and therefore carries no adverse implications for the share price.

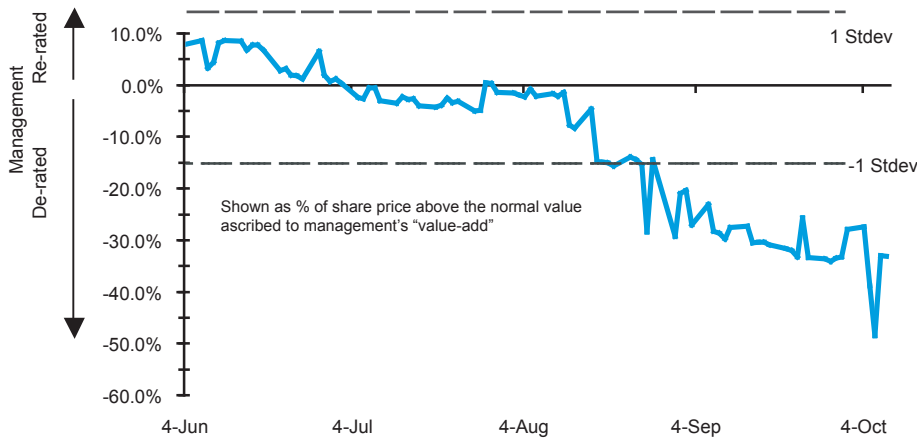
Value criteria: Forecasts made prior to the recent trading statement predicted pre-tax profits of £2.4m for the company for the year to April 2005, with approaching £3m pencilled in for the following year. Honeycombe sells on a multiple of about 10 times versus the main market leisure and hotels sector multiple of 15.3 times. PSR is 0.6 and price-to-cash-flow around 15 times. Return-on-equity is a low 7.5%, almost certainly below the company's cost-of-capital, but Honeycombe has strong asset backing.

Analyst coverage: Two firms cover the stock, including Charles Stanley, the company's broker. Its last recommendation was 'accumulate'. In research published following the recent trading statement, it has maintained this forecast and recommendation unchanged.

More information: www.honeycombe.co.uk

Next results: January (interims)

Portion of HCL share price attributed to “management value add”



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.

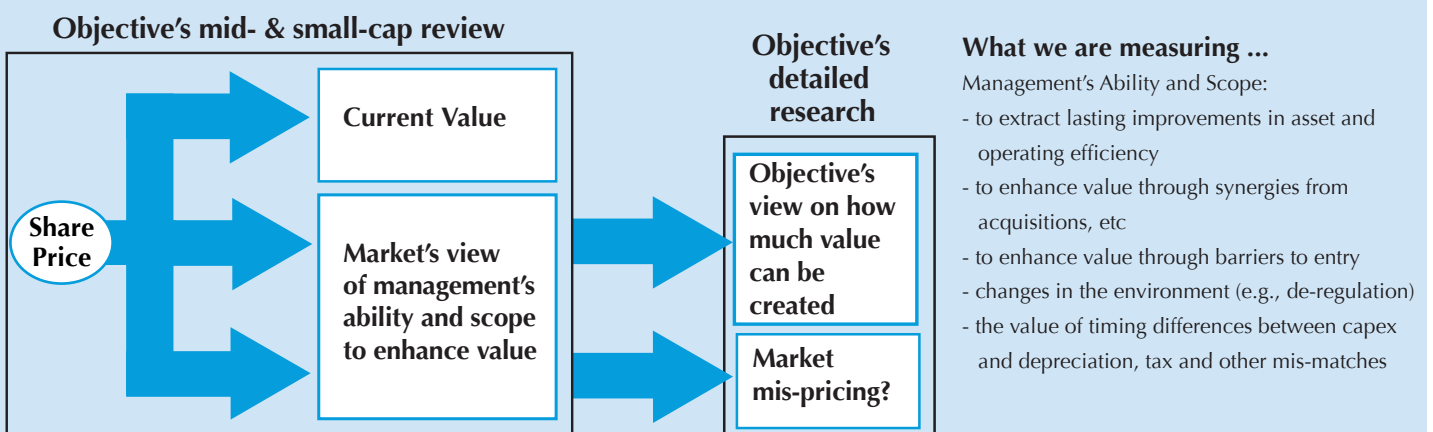
Our detailed company research answers the question of whether the change is justified or if what the market currently pays misses the real value management can add.

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.

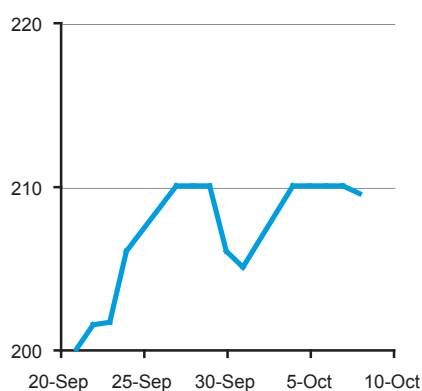
For more information on the detailed methodology of our screening tool or the interpretation of its results please contact us at +44-(0)870 080 2965.



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

PAY - price since listing



Price (p) 208.5

Quote Main market

Ticker PAY

Hi-Lo last 12 mos. n/a

Shares issued (m) 67.0

Market Cap'n (£m) 139.7

Net Debt (£m) -13.5

Enterprise value (£m) 126.2

Website www.paypoint.com

Investment Statistics

Year to	Turnover (£000's)	PBT (£000's)	EPS (p)	PER (x)
Mar-04	67,132	6,024	9.1	22.9
Mar-05	n/a	8,000	12.1	17.2
Mar-06	n/a	10,000	15.1	13.8

Note: Forecasts are illustrative only. No broker research published for first 40 days after admission.

Paypoint (PAY)

Dealing in Paypoint started on 21st September and the company was the first major main market listing since Virgin Mobile and Premier Foods in July.

Cazenove and DKW were joint sponsors and bookrunners to the issue, which went to a healthy premium on the first day of dealings. The stock is currently trading at 208.5p.

Paypoint's business model is based around terminals supplied free of charge to retailers that allow the retailer – which could be a convenience store, newsagent, garage forecourt or supermarket chain – to accept the payment of bills in cash for a wide range of utilities and other organisations. Some retailers link to the Paypoint system through existing EPOS systems.

Paypoint facilitates bill payment for example for TV licenses, water and electricity bills from most providers, gas bills, mobile phone top-ups, London congestion charge, council tax and council house rents, and so on. Paypoint is currently available through some 14,300 retail outlets and 95% of UK households are reckoned to be within 1-5 miles of a Paypoint outlet. The company is also beginning to deploy a number of 'surcharge' ATMs, non-bank cash machines where a small charge is levied for cash withdrawals.

The system processes in the region of four million payments per week and Paypoint derives its revenue from the large clients, whose bills are settled through the system, passing on commission to participating retailers. In the year to March 2004, the group processed a total of 204m payments worth £2.3bn. The lion's share of these transactions are represented by utility bill payments and mobile phone top-ups. The company has achieved this position from a standing start in 1996.

The business throws off cash at an impressive rate, particularly now that there is a sizeable installed base of terminals. Growth in the future is expected to come from adding to the list of clients whose bills can be paid through the system, and also adding to the size of the installed base, making it easier for people to use the system. The company currently has a waiting list of approximately 10,000 for its retail agent scheme. Retail agents can be removed from the scheme after an initial period if their volumes do not meet expectations. There is therefore every incentive for retailers to promote usage of the system, once they have a terminal installed.

Operating cash flow in the year to March 2004 was £12.45m, more than three times the level of the prior year, and there is every indication it could grow substantially in the current year as the system becomes more popular and the benefits of past investment in the system flow through. Free cash flow after a full charge for capex is just short of £11m. If we assume this rises to, say, £15m in this coming year, the shares stand on around nine times prospective free cash flow at the current price of around 208.5p, with 67m shares in issue on a fully diluted basis.

Companies in the News

MFI (MFI)

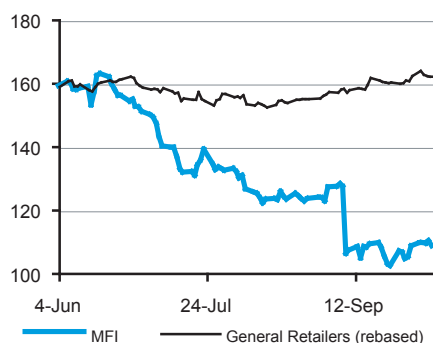
MFI has issued a profit warning after the failure of its computerised inventory control system. As a result the company now expects its retail division to make a substantial loss in the current financial year. It made £30m profit in 2004. In the wake of the news, some £123m was wiped off the company's market value.

Following the announcement, two senior executives Martin Clifford-King, the chief financial officer, and Gordon MacDonald, the head of the supply chain, have been sacked. The future of the CEO, John Hancock, also hangs in the balance. Major shareholders are looking to replace him, although he has the board's backing at present.

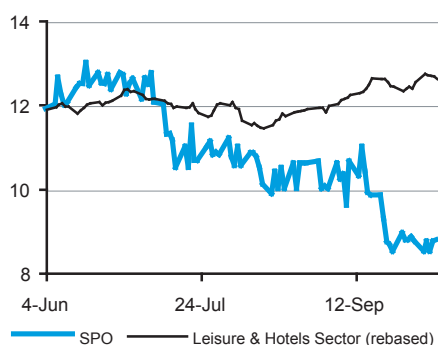
Pressure from rivals such as Argos and Kingfisher is adding to MFI's troubles. A bid cannot be ruled out from either a private equity buyer or from another retailer. On the private equity front, Permira, formerly Schroder Ventures, would probably be in the frame.

More information: www.mfigroup.co.uk

MFI v. General Retailers (rebased)



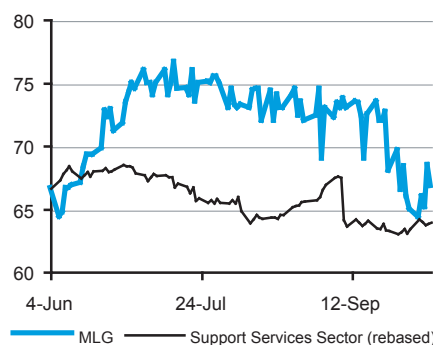
SPO v. Leisure & Hotels (rebased)



SXS v. Elec. & Electronics (rebased)



MLG v. Support Services (rebased)



Sportech (SPO)

Pre-tax profit for the half year was £5.9m against £5.5m for the same period last year. Turnover rose to £254.5m from £157.8m, reflecting significant growth in internet casino products. Operating profit from football pools was £12.9m against £13m in 2003, and the betting business had an operating loss of £1.0m against one of £1.6m a year earlier. A new interactive betting and gaming service is to be launched this month in conjunction with ITV.

More information: www.sportechplc.co.uk

Spectris (SXS)

The instrumentation and controls group announced a 16% fall in first half pre-tax profits to £14.2m, from £17.0m in the same period of last year. The resignation of the finance director was announced at the same time. The poor figures were blamed on the weak dollar and shipment delays. The order book, however, remains healthy with a 12% year-on-year growth in the first half. According to the company, the shipment delays mean that profits and turnover will be disproportionately weighted towards the second half of the year.

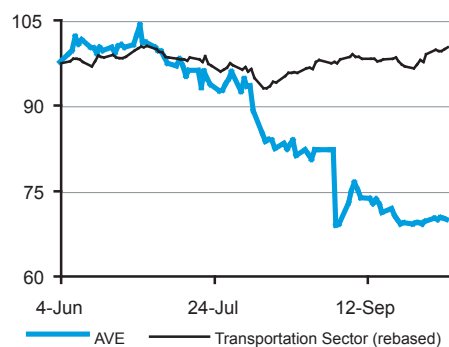
More information: www.spectris.com

MacLellan Group (MLG)

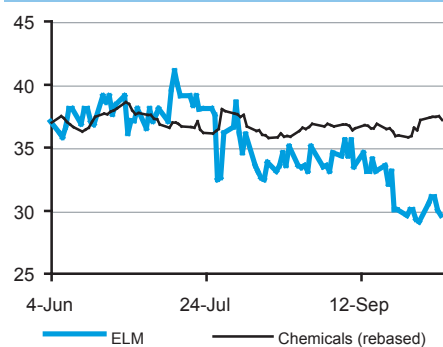
Six-month figures for the business service group showed pre-tax profit of £949,000 against £2.22m for the same period last year. Sales were £86.99m against £74.85m and operating profit £2.88m versus £2.46m.

More information: www.mclellan-group.plc.uk

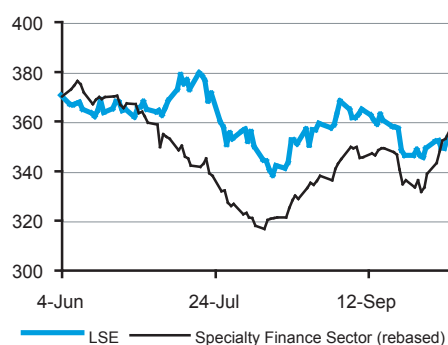
AVE v. Transportation (rebased)



ELM v. Chemicals Sector (rebased)



LSE v. Specialty Finance (rebased)



Avis Europe (AVE)

Shares in the company dropped to an all-time low at the beginning of September. This was after figures for the first six months showed a drop in profits and the company warned that market conditions were unlikely to improve.

Pre-tax profits fell to €10.6m from €13.9m in the same period last year. Poor sales were partly blamed on customers finding cheap deals on internet travel sites. The company's business development and operations director left last month. Its previous CEO, Mark McCafferty, left at the end of last year.

More information: www.avis-europe.com

Elementis (ELM)

Production at the chemical company's pigments plant in the Easton area of Pennsylvania has been hit by severe flooding. This is expected to have a negative impact on profits for 2004. These are now expected to be at the lower end of market expectations. Half-year figures were poor and the company was relying on an improvement in trading in the second half. Normal production has, however, now resumed and the company said that the incident is not expected to affect business performance beyond this year.

More information: www.elementis.com

London Stock Exchange (LSE)

A trading update prior to the six-month figures showed that trading volumes remain resilient, particularly on SETS, the LSE's electronic trading system. The Alternative Investment Market has also performed well with 158 new issues. This was up from 58 in the year-earlier period. Initial public offerings rose by 25% to 129. The total number of equity bargains was 25.5m, up 14% on the same period last year.

More information: www.londonstockexchange.com

Mitie (MTO)

In a recent trading update the company reported a positive start to the current financial year, with trading in line with management's earlier expectations. The company also announced that it has exited from its scaffolding and powered access business. It has sold MITIE Generation for £12.5m to a management buy-out team led by Mark Clifford, the current managing director of Generation. The proceeds will be used for general corporate purposes. Mitie made a loss of £3.4m on the sale but does not expect this to affect its full-year performance.

More information: www.mitie.co.uk

Marylebone Warwick Balfour (MWB)

Half-year results at this real estate operator showed a pre-tax loss of £3.28m against a loss of £63.89m for the same period in 2003. Sales amounted to £240.9m, an improvement on last year's £220.84m.

Recovery at the company's hotel division is being led by Malmaison, where occupancy levels were up 15% since July 1st with average room rates up 12%. The company's West End store Liberty's is being restructured, although the impact of the changes will not be seen until next year. The serviced office business is starting to recover and currently has occupancy of 71%, an increase on the 65% reported at the year-end.

MWB has just announced the acquisition of the Hotel du Vin chain **of boutique hotels**.

More information: www.mwb.co.uk

Halfords (HFD)

A trading update in advance of the newly listed retailer's first interim results revealed an 11% rise in like-for-like sales. Gross margin was slightly below the same period last year, when sales were particularly strong. The CFO said that business at the present time 'was trading ahead of expectations', suggesting confidence in the outlook for the rest of the year.

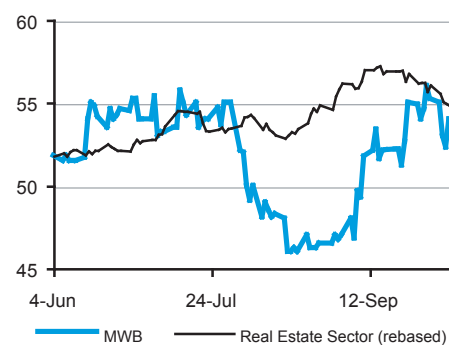
More information: www.halfords.com

Logica (LOG)

The IT group reported stronger than expected first half results with pre-tax profits of £39.2m, compared with £38.9m in the same period last year. Revenue was £809.2m, down 5.1% on the figure a year ago. Operating profit was £34.2m compared with a loss of £52.7m in the same period of last year, when the company was in the middle of a redundancy programme following the merger with CMG in 2002.

More information: www.logicaCMG.com

MWB v. Real Estate Sector (rebased)



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Recent flotation data

Company	Market	Type	Mkt Cap/Amnt Raised	Issue Date
Mercator Gold	Aim	Introduction	£3m / n/a	8-Oct-04
Pearl Street Holdings	Aim	Placing	£1m / TBC	8-Oct-04
Win	Aim	Placing	£19m / £3m	6-Oct-04
Begbies Traynor	Aim	Placing	£26m / £4m	1-Oct-04
China Wonder	Aim	Placing	£2m / TBC	1-Oct-04
BDI Mining	Aim	Placing	£8m / £1m	30-Sep-04
Lombard Risk Management	Aim	Placing	£8m / £1m	30-Sep-04
Sheba Exploration	Ofex	Public offer	£1m / TBC	29-Sep-04
Telephone Maintenance Group	Aim	Placing	£3m / £1m	28-Sep-04
St Helen's Finance	Ofex	Public offer	£1m / TBC	27-Sep-04
Tower	Aim	Placing	£1m / TBC	24-Sep-04
Admiral Group	Main	Placing	£711m / TBC	23-Sep-04
PayPoint	Main	Placing	£130m / TBC	21-Sep-04
Crucial Plan	Aim	Placing	£7m / TBC	17-Sep-04
Transvision Resources	Aim	Placing	£1m / TBC	14-Sep-04
Red Squared	Aim	Introduction	£4m / n/a	13-Sep-04
Augean	Aim	Placing	£2m / £2m	10-Sep-04
Leisure & Gaming	Aim	Placing	£1m / TBC	3-Sep-04
Monkton	Ofex	Public offer	£4m / £1m	1-Sep-04
Cubus Lux	Aim	Introduction	£5m / n/a	31-Aug-04
Intermodal Resource	Aim	Placing	£4m / TBC	31-Aug-04
Formjet	Aim	Placing	£5m / £1m	27-Aug-04
Mediasurface	Aim	Placing	£9m / £2m	26-Aug-04
River Diamonds	Aim	Placing	£7m / £1m	26-Aug-04
Spice Holdings	Aim	Placing	£48m / £12m	26-Aug-04
Homebuy	Aim	Placing	£19m / £3m	25-Aug-04
P&MM Group	Aim	Placing	£14m / £2m	25-Aug-04
Vert-Eco	Aim	Placing	£4m / £3m	25-Aug-04
Rurelec	Aim	Placing	£5m / TBC	18-Aug-04
The Niche Group	Aim	Introduction	£4m / n/a	16-Aug-04

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