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The AIM market performed badly in 2006, trailing other small/mid cap indices by over 20%. New issue indigestion and an over reliance upon oil, mining and gaming stocks were to blame.

As a consequence there are a number of high quality stocks that have been overlooked and offer investors an opportunity. In addition private clients can benefit from generous tax breaks if they hold the shares for over two years. AIM shares then only incur 10% capital gains and are free of inheritance tax.

Greater appreciation of these tax breaks and an inevitable catch-up in performance should see AIM recover well this year. In this review we highlight 14 stocks that offer strong upside and limited risk over the next two years.

Paul Compton
020 7523 8426

24/01/07

Collins Stewart

AIM Portfolio

24 January 2007

- In 2006 there was a striking disparity between the performance of the AIM market and that of the small/mid cap indices on the main market. Typically this was around 20%.

- Whilst the reasons for the underperformance are well known - weaknesses in oil, gas, mining and gaming stocks, combined with too many new issues - it has created an opportunity for investors. The market's prejudice against AIM has been too broad brush, and has left a number of attractive companies on very low multiples.

- We believe that the AIM market will recover strongly this year with one of the drivers being the remaining tax incentives available for private clients. Business taper relief to 10% after two years and freedom from Inheritance Tax are very attractive to private individuals. Wealth management groups are beginning to target these and will be a catalyst for AIM's recovery.

- Our portfolio for 2007 – 2009 is given below. Held as a basket for two years it would qualify for the low CGT rate. O Twelve Estates would not qualify for Inheritance Tax Relief.

Collins Stewart AIM Portfolio 2007 - 2009

Company	Share Price	Theme
Acertec	183p	UK Infrastructure spend
Albemarle & Bond	234p	Banking for the economically disadvantaged
CAP-XX	90p	Revolutionary technology for mobile phones
Computer Software	114p	Consolidator of specialised software suppliers
Inditherm	12p	Electrically conducive polymer - getting orders
Metals Exploration	28p	Gold/molybdenum mining in the Philippines
O Twelve Estates	100p	Property development in the East End of London
Playtech	263p	Gaming software with significant Asian exposure
Polymer Logistics	89p	Eliminating waste in the supermarket supply chain
Silverdell	128p	Asbestos removal in UK - consolidation play
Somero Enterprises	128p	Undervalued specialist engineer
System C Healthcare	20p	NHS software supplier - recovery potential
Ten Alps	54p	Intenet TV play
York Pharma	106p	Array of late-stage drugs

The document is non-impartial investment research. Please see disclaimer for further information.

London
Collins Stewart Europe Ltd
9th Floor
88 Wood Street
London EC2V 7QR
+44 (0)20 7523 8000

New York
Collins Stewart Inc
41st Floor
444 Madison Avenue
New York, NY 10022
+1 212 652 9000

Paris
Collins Stewart Europe Limited
89-91 Rue du Faubourg
Saint-Honoré
75008 Paris
+33 1 4924 1917

Dublin
Collins Stewart Europe Ltd
First Floor
South Dock House
Hanover Quay, Dublin 2
+353 1 635 0210

Milan
Collins Stewart Europe Ltd
Filiale Italiana
Via Santa Marta 25
20123 Milan
+39 02 4547 1057

Geneva
Collins Stewart Europe Ltd
41 rue du XXXI Décembre
1207 Genève
+41 22 707 0030

Substantial Recovery Potential

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Underperformance of AIM versus other markets

- We are in a period of buoyant equity markets. A broad bull market began in early 2003 and this has shown no sign of slowing. In 2006, the FTSE All Share rose by 12.5%, while within this the FTSE Small Cap index rose 17% and the FTSE mid-250 index rose 26%.

- Against this backdrop of strong performance, AIM finished the year flat overall, having entirely given up its 25% rise in the first half of the year. While most indices had something of a setback mid-year, AIM completely missed out on the rally in the second half, leading to considerable underperformance versus the rest of the market, but particularly the FTSE Small Cap and the mid-250.

Figure 1: AIM vs Mid-250

Figure 2: AIM vs Small Cap

- Basic Resources and Oil & Gas account for a third of the AIM Market. Their poor performance justifiably dragged AIM down in 2006 but also created a malaise that affected the whole index. As a result there are a number of ‘normal’ trading companies that are being valued at significant discounts to their main market peers. We believe that a portfolio of such stocks offers private investors a tax-efficient investment vehicle with good upside. This private client buying will be a catalyst for performance in these stocks, so they should also appeal to institutions.

AIM – The Last Great Tax Break

- After two boom years for VCTs, last year the Chancellor reduced the tax breaks available for investors significantly, such that the amount of money raised this year looks like being down 90%. There are, however, two great tax breaks left for private investors investing in the AIM market.

- Qualifying AIM companies are classed as 'business' assets, which attract significantly higher rates of taper relief. After one year, the capital gain payable is reduced from 40% to 20%, whilst after two years this falls to just 10%. There is no limit to the amount that can be invested by private investors, nor is there any restriction on the size of company, provided it is quoted on the AIM market.

- Investments in qualifying AIM stocks also attract 100% relief from Inheritance Tax, provided the investment is held for at least two years before a chargeable transfer occurs. The AIM Company need not be UK resident and most trades qualify. In essence, if a person invests an element of his wealth in AIM shares and lives for two years, those shares are deemed to be outside his estate for IHT purposes, so will not attract the normal 40% charge on death. The main exceptions are: companies that deal in securities, stocks and shares; companies that deal in land or buildings and investment companies.

- Despite all these positive inducements to investing in AIM, if the investment fails or is disposed of at a loss, the investor still gets 40% relief to use against other capital gains in the year of the loss or a subsequent year. So if the shares perform on a two-year view the investor pays 10% CGT, but if they do not he gets a 40% write off. Applied to a basket of investments, this clearly is an appealing structure.

- In terms of qualification, there are no official lists at the Stock Exchange, and we were told that even the Inland Revenue is unsure. Broadly, it is our view that all the companies qualify for the taper relief, but property, investment and financial companies do not qualify for IHT relief.

Acertec

Collins Stewart

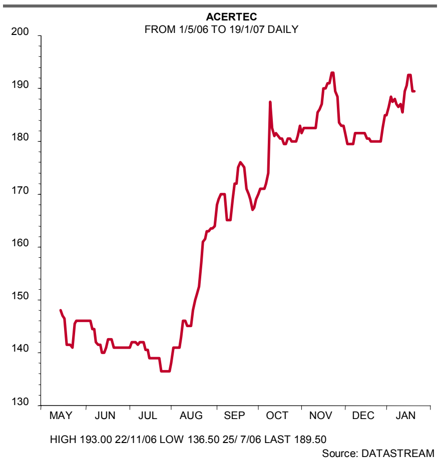
Paul Compton 020 7523 8426
pcompton@collins-stewart.com

UK Construction is the Driver

Recommendation:			**Buy**
Price:			**183p**
2yr Target price:			**300p**
Market cap:			**£93m**

	1m	3m	12m
Absolute (%)	0.8	1.4	N/A
Relative to FT All Share (%)	0.8	-0.5	N/A

Year to December (£m)	PBT	EPS (p)	DPS (p)
2005 A	2.8	N/A	N/A
2006 E	12.7	18.1	7.5
2007 E	15.5	21.2	8.0



- The fundamental reason to buy Acertec is an absence of import competition. Whilst reinforcing steel can be imported from anywhere in the world it can only be bent and cut near its point of sale. There are virtually no imports of finished reinforced bar for concrete buildings and BRC is the largest domestic player. Whilst people continue to fund construction projects in the UK, there will be a UK reinforcement industry.

- The volume of rebar and mesh and consistency of contact with customers provides a platform for BRC to sell high-margin add-on products that make projects better/cheaper. These Special Products now account for half the BRC UK profits, are high-margin (15%) and growing rapidly. Overall the industry is still too fragmented but BRC is putting on a few points of market share every year and now has a 27/28% position. Margins have historically swung between 1% and 5% on the mainstream products. Rationalisation to the 3-4 players that most construction material products warrant would tend to see these stabilising at the top end.

- Car body panels are very different to reinforcing bar but they do share a dislike of travel. They are cheap, bulky and easy to damage. As a consequence there are virtually no imports of these either. The car assemblers pay relatively high wages with benefits and cannot spread their costs over a variety of products. The subcontractors like Stadco can beat them by 30% on cost. This has, over the years, meant a steady drift of work being outsourced. All the chassis pressings are now outsourced and perhaps as much as 30% of the body shell (Body in White). The trend is inexorable as shown by the new BMW series 1, where 50% of body panels are outsourced.

- So this is a steady business, safe from import competition, that is showing good organic growth. In addition,n the assemblers want fewer suppliers so are concentrating on the majors such as Stadco. Recently a major assembler consolidated all its UK suppliers into one, and that was with Stadco.

- Clearly the weakness of this argument is that whilst buildings will always be constructed in the UK, cars may not be made here. Historically, car production in the UK has been very steady at 1.6m units per year. With Toyota saying the UK is one its best locations in Europe and the Japanese assemblers generally favouring the site, this stability seems underpinned. In addition there has been a concentration on prestige brands such as Land Rover and Aston Martin. They are inherently UK based with origin of manufacture being part of the brand.

- Finally, there is the potential rise of Russia. Russian car demand is set to take off and there are tight restrictions on imports. The major assemblers are setting up new plants but do not want to build or operate body shops. They have a good working relationship with Stadco from the UK and Germany so may well choose them for new sites. Russian car ownership is in its infancy with 177 cars per 1,000 people, by comparison with nearly 600 in Germany.

Acertec

- These new factories will be substantial. Against current operating profits of £20m, just one plant could add up to £6m. The build costs will be low with the steel companies and press manufacturers tending to provide a lot of the financing. There should be no need for further equity issues to fund this expansion, which would tend to be done on a non-recourse basis to the parent company.

- The Company is trading well and looks set to achieve our 21p earnings target in 2007. What is it worth? There are not real competitors in the quoted arena. Mayflower traded at 15x earnings as a growth stock in the belief that the outsourcing story for auto body panels had merit, but over-leverage and ill-advised diversification led it into administration. Hill & Smith is seen by some as being comparable to BRC as a construction play but its rating of 13.5x reflects a good record.

- We would argue that the shares justify a 2007 year-rating of 12x or 250p. On top of that there is potential from Russia, which could add significantly to earnings albeit 3-4 years out. The market's enthusiasm for developing country exposure was shown recently when the Manganese Bronze share price trebled on announcement of a deal to manufacture black cabs in China.

- With a shareholder base that has shaken out the uncommitted and the original VC backer down to 21% and supportive, the shares are well placed to head above 250p if the Russian deals are announced. Strategically, Acertec is a valuable asset, giving market access and demand for steel products. Severstal has already bought the Carrington wire business from Acertec, and has already announced a JV in Russia (not confirmed by Acertec) to manufacture bodies for Fiat.

Collins Stewart is broker to Acertec and makes a market in the Company's shares

Albemarle & Bond

Michael O'Brien 020 7523 8423
mobrien@collins-stewart.com

Lending to the Poor

- Albemarle and Bond is a leading UK pawnbroker with a network of over 75 branches. In addition to pawnbroking, the Group offers the synergistic activities of jewellery retailing, cheque cashing and unsecured loans from its branch network.

- There are significant attractions to pawnbroking as a form of finance. It offers immediacy (a loan can be arranged in minutes) and is against an asset an individual does not need on a day-to-day basis. No arrangement fees are payable and it does not require a bank account. In comparison to bank charges for a small loan or going overdrawn, pawnbroking is remarkably cost effective, and failure to repay a loan does not impact on an individual's credit rating.

- There are significant demographic factors having a positive impact on the pawnbroking industry. Recent surveys have suggested that some nine million people in the UK are in the non-standard credit market and almost two million households do not have a bank account. To put it bluntly, the mainstream banking system has no interest in banking the poor, and is getting increasingly rigorous about it. Another important source of business for the alternative credit market is immigration. The opening up of the EU to the east, witnessed most recently by the accession of Bulgaria and Romania has led to hundreds of thousands of immigrants, generally doing lower paid work and not having access to the mainstream banking system. As the doorstep credit market (something which Albemarle has no exposure to) becomes subject to increasing regulation, the services provided by Albemarle will become increasingly attractive.

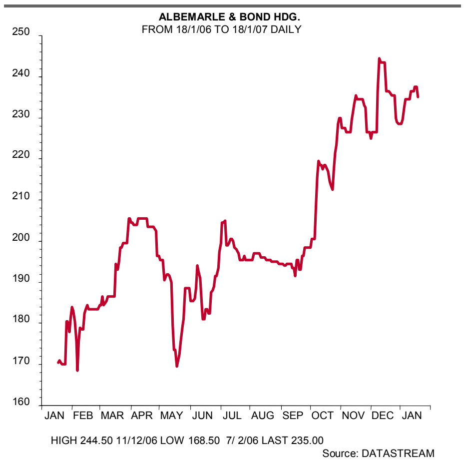
- Although Albemarle has slightly more stores than its largest rival, H&T, its loan book is almost half that, which highlights the immaturity of a number of Albemarle branches and the opportunities for strong organic profit growth from the Group's existing branch network. Pawn shops typically take a number of years to mature, and given that over two-thirds of the Group's branch network has been opened or acquired in the last eight years, just reaching the average loan book per store of H&T would imply an increase in the loan book of £13m at attractive payback periods - typically 15 months for an extension of the pawn loan book. At the gross profit level this would imply a £7m plus uplift! As Albemarle develops its branch network, on absolute terms this long-term store of value will grow appreciably.

- Albemarle is, in our view, a very low-risk business. Its pawnbroking business, which accounts for half of sales, lends cash exclusively against gold, thus reducing the Group's risk profile as the underlying pledges have value in the second hand market or for scrap. Pawnbroking has considerable barriers to entry, including set-up costs, staff training and regulation by both the Consumer Credit Act and the OFT.

Recommendation:	**Buy**
Price:	**234p**
2yr Target price:	**285p**
Market cap:	**£109m**

	1m	3m	12m
Absolute (%)	-1.3	7.6	36.5
Relative to FT All Share (%)	-1.3	5.7	23.0

Year to June (£m)	PBT	EPS (p)	DPS (p)
2006 A	6.7	10.5	4.4
2007 E	7.6	11.6	4.8
2008 E	8.4	12.7	5.2



Albemarle & Bond

- There is meaningful operational gearing in a business such as Albemarle, where there are high incremental returns on capital and a relatively fixed cost base. Albemarle's size also gives it the benefit of centralised control in areas such as stock management and debt collection, something which smaller operators cannot achieve. This also makes the Group a natural industry consolidator. Albemarle can add value to acquisitions by implementing its own systems and controls and widening the product range. This also allows it to acquire stores focusing on services such as cheque cashing or jewellery, and then upscale them to multi-product Albemarle branches. This gives the Group access to a wider pool of acquisition opportunities. The Group has made a number of opportunistic acquisitions of cheque cashing branches for little outlay and has been active in acquiring pawnbrokers, often through retirement sales on single digit multiples.

- Albemarle is a soundly managed company, with an excellent market position, which continues to benefit from high barriers to entry. It is a business with strong organic and inorganic growth opportunities and, with historic interest cover of eight times, has clear scope for accelerated expansion, maybe as much as doubling its branch network in five years. It should also be remembered that a 29% stake in the Group is held by EZCorp, one of America's largest pawnbrokers, listed on NASDAQ with a market capitalisation of US$600m. This should provide downside protection against any share price fall.

- Albemarle has enjoyed a re-rating over recent years as investors have increasingly appreciated the long-term internal and external growth factors and the Group's conservative balance sheet. We believe our forecasts to be conservative (for example, they do not take into account the impact from any acquisitions). If the shares only maintain their current rating, we anticipate a 285p share price.

Collins Stewart is broker to Albemarle & Bond and makes a market in the Company's shares

CAP-XX

Collins Stewart

Raymond Greaves 020 7523 8445
rgreaves@collins-stewart.com

Game-changing technology for mobile device

- The story in a nutshell: mobile phones, laptops, PDAs, etc., are proliferating, getting smaller and adding exciting features, but the real limitation to their future development is batteries and their inability to store energy & deliver power inside ever smaller devices. We believe the CAP-XX supercapacitor is the device that can offer mobile device manufacturers the quantum leap in power management that is required today.

- Portable devices are a rapidly growing segment of the electronics market, but existing battery technology is becoming the main limitation to further increases in functionality.

- Supercapacitors could remove this bottleneck, sitting as a buffer between the device and the battery. Supercapacitors can supply energy quickly at times of high demand and charge up during low periods, thus reducing stress on the battery. Unfortunately, most supercapacitors are too bulky or underpowered for portable devices.

- CAP-XX, however, uses proprietary technology to make wafer-thin devices perfect for portable electronics, having both high-energy storage capacity and excellent power performance. Incorporation within portable devices could open up a new world of functionality, from better flashes in camera-phones and improved audio features to dramatically improved run-times.

- CAP-XX has a robust patent portfolio (US, EU, JP) targeted at end-markets, covering materials, applications and manufacturing processes. The patents extend across electrical design, mechanical design, chemical composition, product reliability and performance. Interlocking patents across a total of 18 patent families provide further defensibility. As with many technology companies, CAP-XX also retains certain IP as firm 'know-how', mostly in process engineering and chemical recipes.

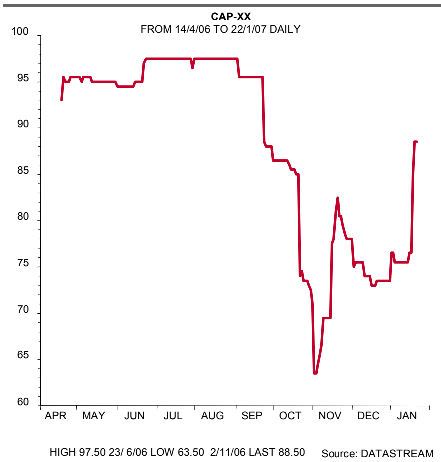
- The company views the mobile-phone market as having the most near-term potential. The scale of the opportunity is impressive; nearly 900m mobile phones are shipped per annum and virtually every one could benefit from the improved power management that a CAP-XX device would bring.

- At the time of the IPO, CAP-XX were able to announce that they were in detailed discussions with a major mobile-phone manufacturer, with regard to integrating a supercapacitor into their product – probably to assist with camera-phone flash. These discussions have been progressing well and we believe that several other major mobile-phone manufacturers are now considering CAP-XX for 2007 designs as well. In our view, we believe that CAP-XX is still on track to announce a design win with a major mobile-phone manufacturer by mid-2007, which was the timeframe indicated at the time of the IPO.

Recommendation:	**Buy**
2yr Target price:	**200p**
Price:	**90p**
Market cap:	**£44m**

	1m	3m	12m
Absolute (%)	20.4	4.1	N/A
Relative to FT All Share (%)	19.0	1.3	N/A

Year to end June (A$m)	Sales	PBT	EPS (p)
2007 E	7	(7)	(6)
2008 E	46	11	9
2009 E	197	74	49



Collins Stewart

CAP-XX

- While CAP-XX management are spending most of their time developing the mobile-phone market, there is no doubt that the supercapacitor offers considerable benefits in many other applications. The PDA and wireless modem market has already discovered the benefit of CAP-XX supercapacitors, with over 1.5 million units shipped to date.

- Furthermore, they continue to be approached by players in new markets that we had not previously considered: a leading lock manufacturer to enable their electronic locks to 'fail safe'; the leading handheld mobile email device manufacturer to enable greater functionality; and a vehicle tracking system manufacturer.

- In terms of financials, CAP-XX already has sales (A$6.5m forecast to June 2007) from ruggedised PDAs and wireless modems. However, we believe the overriding volume driver for CAP-XX will be the installation of supercapacitors into mobile phones. We expect CAP-XX to sign an agreement to supply a phone manufacturer mid-2007, with material volumes flowing from late-2007. Volumes could be circa 130 million units per annum by 2010 and this is based on adoption by only one phone manufacturer.

- On this basis, we see sales jumping to A$46m to June 2008 and nearly A$200m to June 2009. We expect the company to become profitable in the year to June 2008 with EPS of 9p and, given the potential for strong profitability and low capital employed, become very cash generative.

- Furthermore, we believe that CAP-XX is building a strong track record in terms of delivering the key building blocks necessary to grow this company rapidly, which is unusual in our experience; considerable progress has been made with preparing outsourced manufacturing, recruitment of key personnel and marketing.

- Clearly a discounted cash flow valuation of this type of business could produce virtually any valuation. However, looking at a very conservative scenario: adoption by 1 mobile phone manufacturer; 20% discount rate; growth to 2012; no terminal valuation; suggests a fair value for the shares approximately twice what they are today. On this basis, we are setting a two-year price target of 200p per share. In reality, if the concept achieves anything like its potential across multiple markets, this share price expectation could be well short of the mark.

Collins Stewart is broker to CAP-XX and makes a market in the Company's shares

Computer Software Group

Collins Stewart

Stuart Lunn 020 7523 8428
slunn@collins-stewart.com

Adding value in a fragmented market

- During the last three years, Computer Software Group has been successfully transformed through 11 earnings-enhancing acquisitions. These have offered financial and strategic rationale, while also strengthening organic revenue growth, which is estimated to be 6-8% per annum. The company is now a leading consolidator in the fragmented software market and has a significant presence in the UK ERP market through the Business Solutions, Not for Profit and Professional Solutions divisions.

- The acquisition strategy has remained focused, with CS Group buying companies with proprietary IPR and a strong recurring revenue base, meaning that 80% of revenues now come from existing customers. This provides visibility and opportunities to cross-sell into the enlarged customer base. The inherent risk of the strategy is reduced by the company's experience in sourcing, pricing and executing these deals.

- The recently formed Professional Solutions division is a good example of the acquisition process and available opportunities. This industry was identified as having similar IT needs to existing customers, allowing the company to apply its expertise in integrating and developing the three acquisitions, AIM, Laserform and Videss. Cost savings were extracted, particularly at head office level, while the product roadmap was formed and the sales teams re-focused to cross-sell divisional and group products.

- Prior to acquisition, these businesses suffered from lack of scale and discounted to beat each other. The combined operating profit was approximately £0.7m. However, in the six months following acquisition, there were 12 new business wins, including the two largest deals ever won. The division is expected to produce operating profits of £2.8m in FY'08.

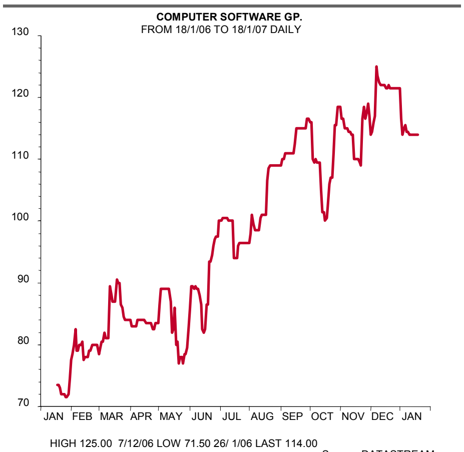
- Based on our analysis and assuming a 30% tax charge, AIM, Laserform and Videss were acquired for 7.1x, 8.7x and 7.3x FY'08 estimates respectively, while CS Group currently trades on 9.9x FY'08E. Therefore, each acquisition was earnings enhancing, with Videss looking particularly attractive due to £2.5m of product development prior to acquisition. We believe our estimates are conservative, leaving room for upgrades as the division matures.

- Our analysis of the last 10 acquisitions demonstrates that the growth strategy has added significant shareholder value. This is displayed by the increase in Return on Capital Employed and improvement in productivity over the last three years. Further, the majority of acquisitions have produced an initial Return on Investment above the group Weighted Average Cost of Capital and there is a reducing trend in the multiples paid for each acquisition.

Recommendation:	**Buy**
2yr Target price:	**170p**
Price:	**114p**
Market cap:	**£70m**

	1m	3m	12m
Absolute (%)	-7	+12	+61
Relative to FT All Share (%)	-7	+10	+45

Year to December (£m)	REV	Pre-tax	EPS (p)
2006 A	25.2	5.1	7.8
2007 E	41.8	8.3	10.0
2008 E	49.5	10.3	11.5



Source: DATASTREAM

Computer Software Group

Collins Stewart

- Driving this growth is a strong management team, including Michael Jackson (formerly of Sage) and Vin Murria, both of whom have valuable acquisition and strategic expertise. The operational management teams have demonstrated their ability to extract efficiencies and grow the top line through focused sales and marketing, improving new business wins and cross-selling throughout the group.

- The current short-term focus is on maximising the benefits of recent acquisitions, particularly integrating the recently formed Professional Solutions division. Evidence of these benefits was provided by the Interim results, with operating profits up from £2.2m in H1'06 to £4.1m in H1'07 and adjusted operating margins moving from 20% to 21%. We expect margins to improve further over the next two years and conservatively estimate 22% in FY'08.

- Our revenue estimates for FY'07 and FY'08 are £41.8m and £49.5m, up from £25.2m in FY'06. This is largely due to acquisitions, although organic growth provides a strong underpinning. We expect adjusted PBT to increase from £0.6m in FY'04 to £8.3m in FY'07. In the medium term, additional earnings-enhancing acquisitions will drive further growth in revenues and profits.

- All this is underpinned by strong cash flow and a healthy balance sheet. Debtor days are down to 41 and the H1'07 cash inflow from operations of £3.1m implies that net debt will be reduced from £13m to at least our full-year estimate of £10m. The interest cover provides comfort, given our expectation of 6.0x in FY'07, increasing to 12.2x in FY'08. This will allow CS Group to continue its acquisition-led growth strategy and demonstrates that the company is financially sound.

- Key to our recommendation is that for a company delivered on expectations and having significant growth prospects, the stock looks cheap. Indeed, we expect earnings to grow 29% in the current year and another 15% in FY'08. Earnings upgrades of 5-7% are also likely, following the usual trading statement in March. Despite this, the shares are trading on a P/E multiple of 11.4x FY'07E estimates, falling to 9.9x in FY'08.

- We expect the multiple to increase towards 14.5x, as the company continues to prove its business model and reduces the perception of risk around the acquisition strategy. Interestingly, 18 months ago the stock was on a forward multiple of 8x. Also helping is that CS Group is now on the radar of many more investors and City institutions due to its £70m market cap.

- On a two-year view, the target multiple equates to a price of 170p and puts CS Group in line with comparable companies, including Kewill, IBS and Tikit. The peer average FY1 P/E is 15.1x. Ascribe is an important comparable, given its similar business model and growth profile. Its shares currently trade on 24x to June 2007, falling to 18x in FY'08.

Collins Stewart makes a market in the Company's shares.

Inditherm

Collins Stewart

Paul Compton 020 7523 8426
pcompton@collins-stewart.com

Technology Valued at £1.5m

- Inditherm should be looked at by all holders of 'wonder' stocks capitalised at over £50m with no revenues. It is a salutary tale. Floated at the end of 2001 at 97p, with a revolutionary technology that allowed electricity to pass through a flexible polymer, the shares then shot to 250p with one DCF value even saying they were worth 2500p. The addressable market of industrial pipe heating, hospital beds and a myriad of other applications is huge.

- Unfortunately the shear breadth of opportunity meant that a series of blind alleys were examined in full: heated steering wheels, car seats, sports equipment and even football pitches. The business was parochial in its outlook and management style. Even in the core industrial/health activities there was the traditional inertia of large corporates; "lets try the product out for a year and then we will think about it".

- In the meantime, investor enthusiasm waned and the money ran out. A 'rescue' issue at 50p ensued in December 2003 and new management was brought in late-2004. Richard Halpern, the new CEO, used to run ABB's metering business, but even he foundered on the rocks of customer inertia. He did, however, focus on just three areas: food-related pipe heating, concrete hardening and hospital beds. In these fields the product has a decisive advantage over alternative technologies.

- Sales in 2006 look like being up 50% at £1.5m, with penetration of most major UK food companies achieved. Concrete hardening orders have been won for pre-cast and on-site applications. Most significantly, in December the company was awarded a multi-year buy contract with Smith's Industries for the hospital beds, starting at $1m and rising to $5m per annum.

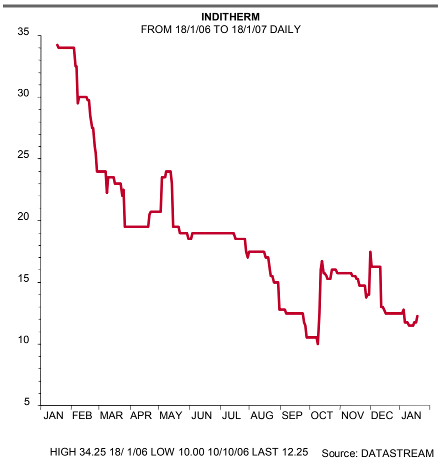
- The company's management has been through so many disappointments that they are reluctant to get too excited, but we believe the corner has been turned and that there is significant upside. Capacity at the main plant is £25m per annum and gross margins are typically 35%. The central overhead is £2m per annum so break-even is at £5m of sales, with strong gearing beyond that.

- We raised £3m for the company in December at 10p, which leaves the company capitalised at £6m with £4.5m of cash. The EV/sales for 2006 is therefore just 1x. That is unprecedented in our experience for such an exciting start-up. Just to give investors some idea of the potential of this stock, let's look at hospital beds.

Recommendation:	**Buy**
2yr Target price:	**30p**
Price:	**12p**
Market cap:	**£6m**

	1m	3m	12m
Absolute (%)	-2.0	-19.7	-64.0
Relative to FT All Share (%)	-2.0	-21.1	-67.5

Year to December (£m)	Sales	PBT	EPS (p)
2005 A	1.5	(1.2)	N/A
2006 E	2.8	(1.0)	N/A
2007 E	5.0	-	-



Inditherm

- When patients are anaesthetised they go hyper-thermic and need to be warmed. Traditionally this has been done with disposable blankets that have hot air blown on them. This is awkward for the surgeons, unhygienic and creates £7,000 per bed per year of disposable waste. The Inditherm mattress goes under the patient, allowing better surgical access, can be controlled within ± 1°C and is entirely reusable. It costs just £1,500 per mattress. The case for use is overwhelming and there are approaching 100,000 hospital beds in the USA alone. Smiths' Industries is a major player in the US medical market; they could sell far more than the 1,000 or so units currently expected. They have a salesforce of 70 in the US who will be selling the units.

- The negative on Inditherm is that it certainly faces another loss-making year in 2007 so a conventional P/E cannot be attached. On a two-year view however, the company should be at break-even at worse and could be a lot better. There are £6m of tax losses to be utilised, worth a further £2m.

- The most likely outcome is that Inditherm will be bought by an industrial major that can put credibility and salesforce behind what is, and has always been, a fantastic product. What would they pay? Well, £20m would be an acceptable price for a technology with such potential but would imply a share price 3x this level. Left to its own devices, if the plant capacity were filled, pre-tax profits would come out at around £7m.

Collins Stewart is broker to Inditherm and makes a market in the Company's shares

Metals Exploration

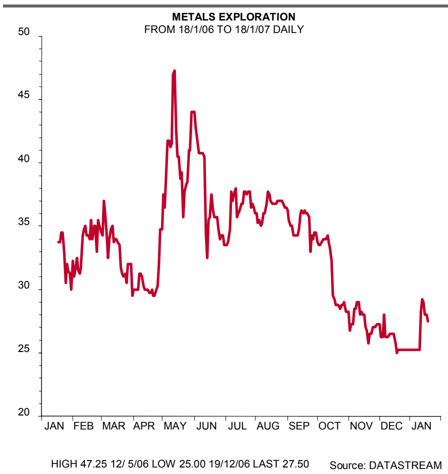
Collins Stewart

Jonathan Guy 020 7523 8417
jguy@collins-stewart.com

A Volcano of Gold?

Recommendation:			**Buy**
2yr Target price:			**43.5p**
Price:			**28p**
Market cap:			**£22m**
	1m	3m	12m
Absolute (%)	10.0	-4.3	-18.5
Relative to FT All Share (%)	10.0	-6.0	-26.6

Disc Rate	NPV	NPV/Share
8%	£127m	£1.02
10%	£109m	£0.87
12%	£94m	£0.75



- Metals Exploration is focused on exploration for gold and molybdenum at the Runruno project, located in the northern area of the main island of the Philippines, Luzon, 200km to the north of Manila. The company currently holds a 40% interest in the project and will increase this to 70% through the completion of a bankable feasibility study and 85% through exercising of a US$6m cash option. This payment can be made in conjunction with the fund raising to bring the mine into production. Ultimately it will seek to increase its holding to 100%.

- Exploration that has been carried out to date has delineated an inferred resource of 28.3Mt at a grade of 2.3 g/t Au and 0.06% Mo; this contains 2.03Moz of gold and 34.4Mlb of molybdenum. Following the £5m fund raising in November 2006, Metals Ex is now pressing ahead with an aggressive drilling programme at Runruno with the objective of delineating 2.5Moz of gold and 50Mlb of molybdenum by July 2007. It will then complete a feasibility study at the project, evaluating its potential to support an open pit mine producing 200koz/y of gold and 3.2Mlb/y of molybdenum. This level of production would both make the company a mid-tier miner in its own right and an attractive acquisition target for one of the major gold mining groups.

- Runruno is hosted within a volcanic dome complex and the principal mineralised structure is a shallow dipping fault zone consisting of potassic altered, sericitized and brecciated alkaline intrusives and volcanic tuffs, which have been variably pyritized and silicified. The dome covers an area 4km in diameter, of which only 20% has been explored. The scale of the resource at Runruno could ultimately prove to be several times the size of that which has been delineated to date and it is possible that the deposit could contain more than 8Moz of gold, which would make it one of the largest discoveries in the past decade.

- The Philippines has always been recognised as a country with substantial mineral resources, however, this potential has not historically been fulfilled. This may be attributed to the country's perceived hostility to mining and its political and security risks. The government is now actively pro-mining and, more significantly, the 1995 Mining Act that grants overseas companies the right to hold a 100% interest in larger (>US$50m capex) mines, has been ratified as constitutional by the Supreme Court. The Philippines is classified by Control Risks as a high political risk and a medium security risk.

- The gold price has risen steadily as the metal has been freed from the shackles of heavy forward selling by the miners and sales from central banks. More recently gold has decoupled from the US$ and has appreciated in relation to all of the major currencies. This has been driven by investor demand for a secure store of value during a period of high inflation that has been driven by high-energy prices and an increase in global political instability.

Metals Exploration

- Gold mine supply has been relatively stable over the past six years, although it is slightly lower than it was at the beginning of the decade. New mine supply has been constrained by a lack of exploration success during the past decade, especially in the major developed gold mining nations – the USA, Australia and Canada. Major new deposits, >3Moz, are priority acquisition targets for the major gold mining groups. We believe that the gold price is likely to continue to trade between US$550/oz and US$650/oz over the next 12 months and will then decline to a long-term price around US$550/oz over a five-year period.

- On the basis of the existing Runruno resource, Metals Ex has an NPV10 of £109m. Metals Ex is moving straight from resource definition to a bankable feasibility study, which should be completed by early 2008, by which time it should be trading at the standard 50% of the project's NPV. This would suggest a target price of 43.5p, 55% above the current level. This valuation, however, attributes no value to the exploration potential of the four-fifths of the Runruno project that has not yet been drilled.

- Metals Ex may also be compared to other gold exploration and development companies that are listed on AIM. This suggests that the market is currently attributing a value of US$70/oz to those companies with advanced exploration and development projects. Metals Ex is currently trading at US$25/oz, excluding any credit for the molybdenum at the project. The application of the average valuation for the peer group to Metals Ex would suggest a value of £62m, 81p/share. This would fall to 49p/share once the additional equity dilution that will be required to fund the development of the mine is taken into account. This fully-diluted figure would rise to 74p if the company does manage to delineate a resource of 2.5Moz of gold.

- The main value catalysts over the next 12 months will be the publication of the next resource statement and the results of the scout drilling at Runruno. The resource statement should underpin the development of the project as a 200koz/y mine, setting a base value of the company at 43.5p. Should the scout drilling indicate that mineralisation extends around more of the dome at Runruno, Metals Ex could be worth a multiple of this value. The company's cash position should be sufficient to meet its commitments during 2007, however, it will need to raise additional funds prior to the completion of the feasibility study, although this should be at a far higher level than the current share price.

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

O Twelve Estates

Selwyn Jones 020 7523 8418
selwynjones@collins-stewart.com

Olympics Property Play

- O Twelve Estates is a Guernsey registered property fund which was formed in March 2006 to invest in primarily income producing assets in and around the Thames Gateway and the adjacent areas of east London, Essex, south Hertfordshire and north Kent. The property advisor to the fund believe that the 2012 Olympic Games will act as a catalyst for hastening the ongoing regeneration of London's Eastern Quadrant with the London Development Agency (LDA) and Transport for London budgeting for combined transport and infrastructure improvements of £6.5 billion in this area.

- The property advisor is Rugby Asset Management (RAM), a wholly owned subsidiary of AIM quoted property company Rugby Estates. The Rugby executive team have worked together for over 10 years and the Chairman, CEO and FD for over 20 years. The company has consistently performed strongly since admission to the Stock Market in 1994 and, in the last five years, is the second ranked company/fund in IPD. RAM receives a property advisor fee of 1% on gross property assets and is further incentivised by a performance fee of 15% of total return in excess of 10%, and 25% over 15%. Rugby invested £4m in the IPO at 100p, which at the time represented approximately 10% of its net assets.

- O Twelve invests in all commercial property sectors with some risk-controlled development also undertaken. The target equivalent net yield on property acquisitions is 6% and this has been achieved. Rental and capital values for industrial, distribution and office properties in the Eastern Quadrant of London are on average 50-70% of the Western Corridor (Park Royal to Heathrow) and we expect this gap to narrow considerably in the next several years as the transport and infrastructure improvements, such as the 2009 opening of the Olympic Javelin service on the Channel Tunnel Rail Link (Kings Cross to Stratford in 7-minutes), are completed.

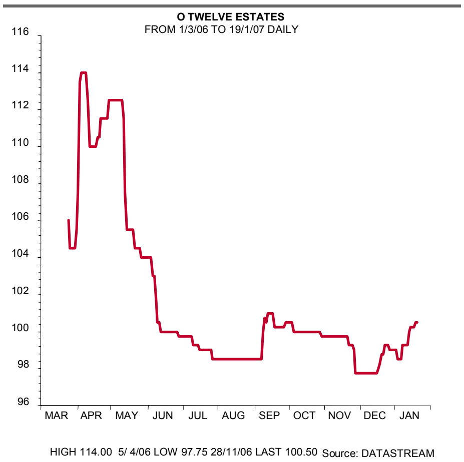
- Property investment yields in the UK may well have peaked but the principal focus for this fund will be on astute property purchases (virtually all off-market), active asset management, marriage value deals, planning gains and alternative use. Capital value growth will be generated primarily from the prospect of well above average rental growth as the Eastern Quadrant of London "outperforms".

- In its first nine and a half months, O Twelve has invested over £160m in 12 transactions, at an average initial yield of 5.3% and equivalent yield of just over 6%. We understand that the managers have four additional properties in solicitor hands approximating £125m and this would increase gross assets to £285m if all purchases are completed. Based on the maximum 65% LTV (loan to value), O Twelve has total firepower of around £340m and this would equate to over 80% of the equity and debt being invested already and well ahead of the timetable in the prospectus. As such, we remain confident that the fund will be fully invested in Summer 2007.

Recommendation:	**Buy**
2yr Target price:	**160p**
Price:	**100p**
Market cap:	**£122.8m**

	1m	3m	12m
Absolute (%)	2.0	0.2	N/A
Relative to FT All Share (%)	2.1	-1.5	N/A

Year to March (£m)	NAV (p)	EPS (p)	DPS (p)
2007 E	104.5	3.2	1.0
2008 E	124.1	1.6	1.5
2009 E	146.9	2.4	2.0



O Twelve Estates

- Based on the initial £160m of gross assets, 45% are retail and 25% each in industrial/distribution and offices. The other 5% is invested in a reversionary residential AST investment, close to Stratford Station and the Olympic site. The relatively high retail weighting reflects the recent purchases in Brentwood (£41.6m) and Braintree (£28.5m) – the former has prime Zone A rents of just £82.50 per sq ft, less than 40% of nearby Romford, and some void space to provide new rental evidence. Braintree Zone A rents are just £35 per sq ft which, with active management, offer considerable scope for growth. We believe that a fully invested O Twelve could have a 40% weighting in industrial and distribution, 30% in offices, 25% in retail and 5% residential.

- We calculate that an average 5% capital value growth pa to March 2012 would yield an NAV increase to c183p (+93% on the starting NAV of 95.5p) to give a CAGR of 12% pa (or 14%+ total return including dividends). This is a conservative estimate in our view and, allowing for an average 8% capital value growth pa up to March 2012, would yield an NAV increase to c230p, to give a CAGR of 17% pa (or 20% total return including dividend).

- We believe that the prospect of 15-20% NAV growth demands a premium rating and that our share price target is conservative. The property advisors have already started to prove their astute deal-making and entrepreneurial skills – the average capital value increase in the first half-year to September 2006 was 4.5% (excluding acquisition costs), even though some of the properties had only just been purchased. Our 160p share price target reflects a 9% premium to our March 2009 NAV estimate, or 8% discount to our March 2010 NAV estimate of 173p.

Collins Stewart is broker to O Twelve Estates and makes a market in the Company's shares.

Playtech

Collins Stewart

Stephen Ford 020 7523 8421
sford@collins-stewart.com

Asian Gaming Exposure

- Playtech has had an eventful 10 months since coming to market in March 2006. It initially strongly outperformed expectations, setting the shares off to a flying start. However the US prohibition bill saw half the turnover vanish and the stock fell heavily in-line with the rest of the market. It is testament to the quality of the company and its management that Playtech has staged a dramatic recovery; driven by the earnings enhancing acquisition of Tribeca, a licensing deal in China and a contract with Party Gaming. This sets it apart from other online gaming stocks.

- From an investors perspective, the principal attraction to the shares is a business model that generates very high operating margins (65% forecast in 2007) and high growth. This is the result of a royalty revenue model operating in a high-growth industry but on the back of relatively fixed-cost base. The royalty revenue model means that turnover is directly correlated to its licensees' performance. These licensees will continue to grow quickly for a number of reasons, principally the growth in online gaming, the quality of Playtech's software and the launch of several new products.

- The online gaming market still only represents about 5% of the land-based gaming market, leaving plenty of scope for growth, as global internet penetration continues to increase and, in general, jurisdictions become more liberal. Accentuating the licensees' growth is Playtech's highly functional software which benefits from the development requests of over 40 licensees and thus is a leading-edge product which tends to outperform most of the competition. More specifically, Playtech is launching several new products (namely Pachinko, Mahjong, Asian card games, mobile and Videobet), all of which should help increase licensees' revenues.

- It is estimated that over $250bn p.a. is gambled on Pachinko in Japan, making it the largest gaming market in the world. Playtech has just launched a 'play for real' Pachinko product, which it believes to be the first in the world. Playtech expects to launch its peer-to-peer mahjong and Asian card game products in 2007. Mahjong is played by over 300m people in Asia and localised Asian card games are equally popular. In this context the recent deal with Sino Strategic International (SSI), a leading Chinese retail gaming group looks particularly interesting. SSI operates the largest corporate gaming network in China, distributing Keno, lotto and Video Lottery Terminal. It has a licence to provide P2P gaming from up to 5,000 computers in 600 outlets in Shanghai. The initial offering will be poker with more popular local games such as mahjong, Do Di Zhu and Cho Da Di being launched during 2007 when development is completed by Playtech. Finally, Playtech has also developed a version of its software for mobile phones and is entering the land-based gaming terminal market (the 95% of the gaming market it hasn't historically addressed). The opportunities are thus vast and consequently, Playtech (ex the US) looks set to continue to see its top line grow rapidly.

Recommendation:	**Buy**
2yr Target price:	**430p**
Price:	**263p**
Market cap:	**£571m**

	1m	3m	12m
Absolute (%)	21.2	54.8	N/A
Relative to FT All Share (%)	21.2	51.9	N/A

Year to December	PAT ($m)	EPS (p)	DPS (p)
2006 E	65.5	15.8	8.1
2007 E	65.1	15.5	8.0
2008 E	85.6	20.3	10.6

Source: DATASTREAM

Playtech

- Whilst this revenue growth is an attraction in its own right, what makes Playtech doubly interesting is that the cost base of the company is most fixed in nature (software developers). The number of developers is increasing at a lower rate than turnover, resulting in strong operation gearing and high-profit growth.

- In our opinion, in addition to having the best business model to generate profit growth from online gaming, Playtech is also less risky than its peers. Its revenue is dependent on over 40 licensees operating in markets all over the world and using several different products. It is therefore not reliant on any one licensee, market or product. This diversification reduces the risks considerably in comparison to individual operators that may be overly reliant on one product, market or both. This is one of the reasons that Playtech has been able to recover from the US prohibition bill whilst many of the listed operators have not.

- We are comfortable with our current 2007 forecasts for sales of $93.6m, normalised profit after tax of $65.1m, CS EPS of 15.5p and DPS of 8.0p. For 2008 we expect normalised PAT of $85.6m and 31% earnings growth to 20.3p, with DPS of 10.6p. It is probably worth pointing out that these forecasts contain only relatively modest assumptions for the new product launches, despite the potential. We continue to believe the stock offers good value, on a December 2008 p/e of 12.9x, particularly given the company's strategic positioning in Asia, its attractive operationally leveraged business model and the potential upside from the new products.

- Looking two years out, it seems entirely possible that the stock could be trading on a 18x multiple of a 2009 forecast of at least $100m PAT (assuming bottom-line growth of just 20% in 2009). This suggests a two-year price target of 430p.

Collins Stewart is broker to Playtech and makes a market in the Company's shares.

Polymer Logistics

Collins Stewart

Julian Cater 020 7523 8425
jcater@collins-stewart.com

Eliminating Supermarket Waste

- Polymer Logistics is a leading provider of Retail Ready Packaging (RRP) solutions to the retail industry. It designs, manufactures and rents or sells plastic pallets, dollies (wheeled pallets) and bins primarily to food retailers and their suppliers in the UK and Continental Europe. Its RRP units act both as transport storage containers and as in-store displays. The company was founded in 1994, and was floated on AIM in December 2006 at 82p.

- The company has established its strong market position through a combination of product innovation (it has five patents and is pursuing a further 16, and has developed over 30 different products) and the high quality of its service provision. It has strong relationships with the largest food retailers including Tesco, Sainsbury's, Asda, Carrefour and Wal*Mart. These retailers are requiring adoption of RRP by their suppliers. Tesco took its first product from Polymer Logistics in 2001 and now uses seven different products. A key driver of growth will come from adoption of further product lines by existing customers.

- Retailers are seeking ways of reducing their supply chain operating costs (replenishment, labour and logistics) and this is a key driver of growth for Polymer Logistics. On average, RRP solutions can deliver supply chain cost savings of 20%, which is significant for food retailers whose EBIT margins are typically 3-6%. Indeed, the Sunday Times, in an article about possible collaboration between Sainsbury's and Asda, quoted Andy Bond (CEO of Asda) as saying "the whole of the logistics chain is one of the biggest areas of opportunity". However, the market is relatively immature: Tesco has been the most progressive adopter of RRP, but currently carries only 20% of its products in wheeled RRP (with a target of moving this to 80%).

- RRP is an important way for retailers to demonstrate their green credentials. UK and US food retailers are increasingly focusing on ways to reduce packaging waste. RRP units are re-useable and recyclable at the end of their life thereby eliminating the environmental impact of disposable 'one-way' packaging made out of timber or cardboard. The UK is participating in a Europe-wide effort to achieve packaging recovery rates of 60% for paper and cardboard by December 2008. From 2008, retailers will have to pay for 48% of the cost of the packaging waste obligations. And we believe that the prospect of these additional costs, and the desire to avoid them, will produce a strong catalyst for RRP adoption by retailers. Marks and Spencer, for instance, has stated that by 2012 it does not want to be sending any waste to landfill sites, and intends to reduce its use of packaging by 25%.

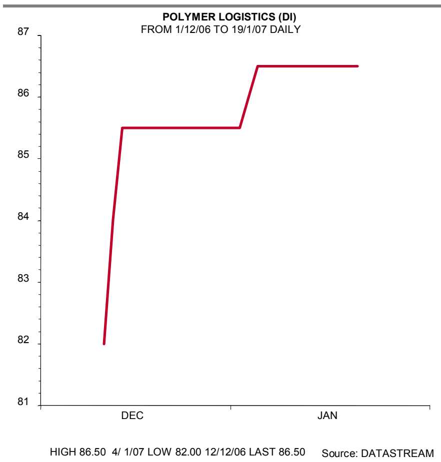
Recommendation:	**Buy**
2yr Target price:	**155p**
Price:	**89p**
Market cap:	**£67m**

	1m	3m	12m
Absolute (%)	1.2	N/A	N/A
Relative to FT All Share (%)	1.1	N/A	N/A

Year to December (€)	PBT	EPS (cents)	DPS (cents)
2005 A	1.4	1.0	0.0
2006 E	4.2	6.4	0.0
2007 E	10.7	11.2	0.9

Year to December (£)	PBT	EPS (p)	DPS (p)
2005	0.9	0.7	0.0
2006E	2.7	4.2	0.0
2007E	7.0	7.4	0.6

Notes:
1. EPS is fully diluted
2. Reporting currency is Euros; Share price is in GBP



Polymer Logistics

- The company enjoys a high degree of visibility to its revenues owing to long-term contracts. It has signed 3-6 year contracts with its major retail and/or supplier customers. We estimate that around 70% of revenues in 2007 will come from rental income (as opposed to outright product sales), and this can be predicted with a high level of accuracy owing to analysis of retailer volumes. We forecast very strong sales growth in 2007 owing to a number of new contracts starting. These include a large US fruit producer ($5m per annum), a Wal*Mart meat supplier ($3.5m per annum) and Carrefour and Ortofin (€15m per annum). Polymer is conducting trials with a number of other retailers and we expect further contract signings in the coming months.

- As the company develops scale over the next two years, we expect it to benefit from operational gearing. Consequently, we expect EBITA margins will expand from 11.5% in 2005 to around 25% in 2008. Improved asset utilisation will drive a strong improvement in ROAIC from 4.5% in 2005 to around 18% in 2008. We forecast the company to become free cash flow positive (after capex) in 2008, but that the company will start paying a dividend in 2007.

- On a fully-diluted basis, Polymer Logistics trades on a 2007 PE of 12x. This is a 37% discount to the peer group (Brambles, Ifco Systems, Aggreko, Ashtead, Electrocomponents and Premier Farnell) 2007 PE of 18.6x. A peer group PE would equate to a price target of 137p (59% upside).

- We have established our price target of 155p in 2008 using an implied value creation model. This uses a ratio of enterprise value to invested capital as a measure of value. We compare this level of implied value creation to our forecast level of economic value creation (calculated by dividing ROIC by the company's WACC). We forecast that by 2008, Polymer will be achieving an ROAIC of 18.1% and assume that the company's WACC is 10%. ROAIC divided by WACC will be 1.8x in 2008, and we therefore anticipate a similar relationship between the company's Enterprise Value and its Invested Capital in that year (£62m). This implies an Enterprise Value of £112m in 2008, and a share price of 155p (75% upside). At that price, the shares would be trading on 12x our fully-diluted 2008 EPS forecast of 12.9p. BUY.

Collins Stewart is broker to Polymer Logistics and makes a market in the Company's shares.

Silverdell

Michael O'Brien 020 7523 8423
mobrien@collins-stewart.com

Asbestos Removal

- Silverdell is one of the UK's leading asbestos contractors and offers a broad range of services including surveying, consultancy, remediation and removal. The Group was established in 1979 and has developed a strong market position under a well-established management team. Silverdell has invested heavily in health and safety and has the cleanest health and safety record in the industry.

- Asbestos is probably the largest occupational health problem ever encountered in the UK. Over 3,500 people per annum are currently dying each year from asbestos related diseases. Asbestos was widely used in UK buildings until the mid-1970s and it is estimated that half a million commercial, industrial and public buildings in the UK still contain asbestos. Legislation implemented in 2004 places a requirement on those with responsibility for premises to assess and manage the risk from asbestos in their buildings. This has created a huge increase in demand for the services provided by businesses such as Silverdell resulting in financial performance.

- Asbestos was prevalent as a multi-purpose building material in the UK up until 1985 when the import of blue and brown asbestos was banned. At their peak, volumes of asbestos, imports were c.175,000 tonnes per annum. Around 80% of commercial and industrial property stock is considered to have a high risk of containing asbestos, either through being built with asbestos in the building fabric or being renovated with asbestos being used as part of that process. Additionally, it is estimated that some 4m or so private residences have asbestos in them. At present domestic properties are not subject to the UK's regulatory regime, but in due course this may change.

- Reflecting the specialist nature of its work in a market with high barriers to entry and strict safety legislation, Silverdell enjoys attractive operating margins of over 15%. The Group's business is also characterised by excellent relationships with blue chip companies and local authorities, high repeat business and over 50% of the business being of a long-term, contracted nature.

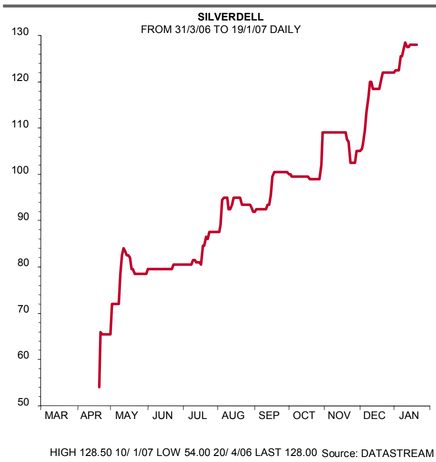
- Over the last four financial years the Group has seen annual turnover and profit growth of 30%. Silverdell is the UK market leader in the rail industry, and is rapidly growing its market share amongst the utilities and retailers. Its home market of London remains the fastest growing construction market in Europe, and the 2012 Olympics is starting to provide significant opportunities

- The HSE estimates that the cost of removing asbestos in the UK will be at least £10bn, compared to current industry capacity of c.£500m per annum. This figure excludes remediation and control measures (i.e. non-removal where removal is not appropriate). Silverdell has prime mover advantage in this market and is developing a national network to take advantage of major national relationships that can be developed.

Recommendation:			**Buy**
2yr Target price:			**180p**
Price:			**128p**
Market cap:			**£44m**

	1m	3m	12m
Absolute (%)	8.0	29.3	N/A
Relative to FT All Share (%)	8.0	26.9	N/A

Year to December (£m)	Rev.	EPS	PBT
2007 E	28.5	10	4.8
2008 E	33	11.8	5.6



Silverdell

- Silverdell has recently announced the acquisition of Redhill Analysts, a highly regarded UK asbestos and environmental consultancy, for a total consideration of up to £10m. This business has seen annual compounded top-line growth of over 20% and has a number of complementary strengths, notably a strong brand and market position, high repeat earnings and long-term contracts. Assuming Redhill triggers its earn-out commitment, it will be acquired on a single-digit multiple and we would anticipate further deals are carried out on similarly attractive multiples. We anticipate normalised EPS of 10p for 2007, rising to almost 12p for 2008. A 15x multiple and 180p target price is not unrealistic. We believe the Redhill deal is the start of a process to actively consolidate the industry, which will not only produce attractive returns on investment for Silverdell, but will make the Group an attractive target for a larger support services business.

- The asbestos remediation market is fragmented. There are only a handful of dedicated asbestos removal businesses that have any national coverage capability, and Silverdell is the largest of these. Barriers to entry are increasing as a result of legislation and also reputation. Silverdell is one of the few players who have been around for over 20 years, and this also acts as barrier to entry. Given the nature and risk profile of the materials being dealt with, large corporates and public bodies are not going to take risks. Silverdell's geographic spread also provides a key point of differentiation in this fragmented market, whilst its scale also provides advantages for insurance premium purchasing.

Collins Stewart is broker to Silverdell and makes a market in the Company's shares.

Somero Enterprises

Collins Stewart

Michael O'Brien 020 7523 8423
mobrien@collins-stewart.com

Concrete laying made easy

- Somero is the world leader in the design and manufacture of patented concrete levelling and contouring equipment, offering significant productivity and quality improvements in the concrete laying process. The use of concrete construction is capturing market share in both the developed and developing world. Somero's equipment enables customers to achieve extremely flat and level surfaces at substantially lower costs and considerably less time than alternative methods.

- Somero's products revolutionise the process of laying concrete and give a payback of under a year. The key benefits come from a significant increase in laying volumes, higher quality, placement savings and the elimination of labour. Over half of the installed base of Large Laser Screeds, the Group's most important line, is over seven years old and close to the end of its estimated useful life, helping to provide an in-built replacement market. The Group has diversified its product range away from Large Laser Screeds to smaller screeds and grading and hose moving machines. These are markets which had basically nothing in the way of automation and thus Somero is creating new markets without cannibalising its own market position.

- Somero is a business that has multiple growth opportunities. Somero has to date focused on the private commercial construction market and has substantial scope to expand into both the public sector and private residential markets and infrastructure. In combination these markets are significantly larger than the private construction market that Somero has targeted to date. Other market opportunities include international penetration (historically North America is almost three-quarters of sales yet is roughly half of this percentage in the overall construction equipment market), cross-selling, increasing spares and accessories' spares and new production innovation. Although Somero has not been adversely affected by the slowdown in the US housing market, these growth opportunities in our mind provide significant upside potential.

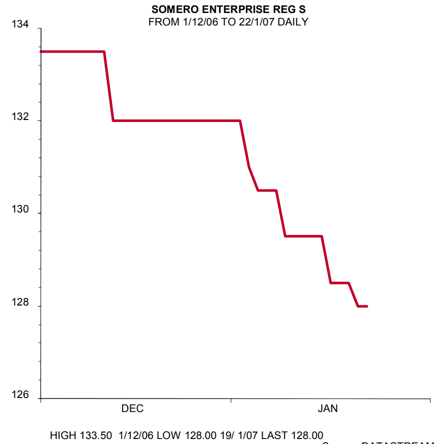
- The Group has an installed base of 2,500 units in over 50 countries, so has proven expertise in building an international presence. There are, however, huge international market opportunities in emerging markets. As regions such as China, India and the Middle East see economic growth and investment in infrastructure, they are laying increasing volumes of concrete, often an increasingly technical product, and automation provides them with the ability to do this, whereas reliance on manual labour does not. Already China and India, each produce more concrete than the US, so automation of this process to the same level of penetration as the US would broadly triple Somero's sales.

- Somero has an excellent financial footprint, with EBITDA margins of over 25% and minimal capital investment or working capital requirements (manufacturing is essentially outsourced). This produces excellent cash generation and will allow a progressive dividend and potential bolt-on acquisitions to be pursued with vigour.

Recommendation:	**Buy**
2yr Target price:	**206p**
Price:	**128p**
Market cap:	**£40m**

	1m	3m	12m
Absolute (%)	-3.0	N/A	N/A
Relative to FT All Share (%)	-4.1	N/A	N/A

Year to December ($m)	PBT	EPS ($)	DPS ($)
2006 A	10.3	10.9	0.0
2007 E	14.2	15.3	3.3
2008 E	17.0	17.5	3.7



Source: DATASTREAM

Somero Enterprises

- We have recently taken the opportunity to upgrade our 2007 trading expectations, with our CS PBT forecast rising from US$13.9m to US$14.2m, representing a 2007 P/E of just 8.6 times. For 2008 we have upgraded our CS PBT forecast to US$17m, placing the shares on a 2008 P/E of just 7.5 times, which for a world leading business in a growing market with little in the way of competition is a very attractive valuation, especially in the context of a 2.8% forecast yield for the current financial year. Somero floated at 125p.

- Somero is significantly undervalued both on an absolute basis and relative to the wider UK quoted engineering sector where mid-teen multiples are common. As the Group grows its market, it becomes an increasingly attractive bolt-on acquisition for a larger construction equipment manufacturer (the VC-backer still retains a 38% stake). We believe that a 12x 2008 multiple is a viable share price target, implying a price of 206p, upside of 60%.

Collins Stewart is broker to Somero Enterprises and makes a market in the Company's shares.

System C Healthcare

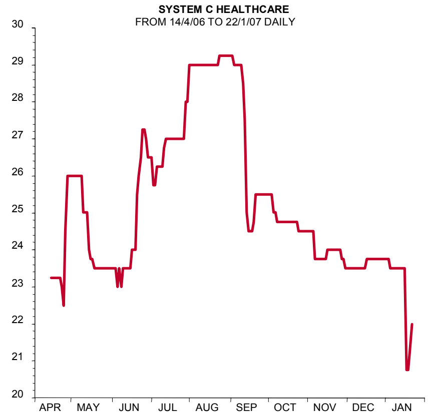
Collins Stewart

Stuart Lunn 020 7523 8428
slunn@collins-stewart.com

Recommendation:	**Buy**
2yr Target price:	**36p**
Price:	**20p**
Market cap:	**£18.1m**

	1m	3m	12m
Absolute (%)	-14	13.9	-43
Relative to FT All Share (%)	-13	11.1	-48

Year to December (£m)	Sales	PBT	EPS (p)
2006 A	16.1	1.1	1.7
2007 E	13.5	0.8	0.7
2008 E	15.3	2.2	1.7



HIGH 29.25 24/ 8/06 LOW 20.75 17/ 1/07 LAST 22.00 Source: DATASTREAM

Significant growth opportunities ahead

- We expect System C to benefit from significant increases in activity within the UK healthcare IT market over the next two years. This is due to pent-up demand for the products and IT services required to modernise NHS IT systems, coupled with the company's position as a leading UK supplier.

- While System C has suffered from the well-publicised problems in the National Programme, many of the associated risks have now been realised, providing a far stronger medium-term outlook. Indeed, the interim results issued on 24 January 2007 contained several positive factors that underpin our FY'07 and FY'08 estimates.

- The IT Services business is observing a pick-up in activity, albeit slower than originally expected. This is helped by recent diversification, leading to new opportunities within and outside the National Programme. The company has strong relationships at national and Trust levels and currently has personnel working within two LSPs and Connecting for Health. The recent announcement also discloses a new contract to provide support services to a major diagnostic services company.

- The existing contracts, coupled with ongoing contract negotiations, underpin our FY'08 IT Services revenue estimate of £11.1m (FY'07E: £10.2m). This estimate implies only a minor increase in utilisation rates and staff numbers in FY'08, despite the anticipated ramp-up in deployments expected over the next 12 months.

- Also announced was a multi-million pound contract to supply the MedWay PAS and EPR system. This is an important signal that System C's products continue to provide opportunities, due to their proven technology and scalability. The contract was secured against all the major suppliers of core PAS and EPR systems in the UK market. Our FY'08 product revenue estimate of £4.2m (FY'07E: £3.3m) is underpinned by this and existing contracts, in addition to an expected improvement in revenues from HealthData Manager.

- Net cash at the year-end is expected to be approximately £9m, providing confidence that the company has the necessary resources to benefit from improvements in its market. Further, the cash currently equates to around 47% of the company's market capitalisation. In FY'08, net cash is expected to increase to approximately £10m.

- Our FY'07 revenue estimate is £13.5m (FY'06: £16.1), increasing to £15.3m in FY'08. As discussed above, we believe that there is significant upside potential to this figure depending on the scale of the ramp-up in the National Programme. Our adjusted PBT estimate is £0.8m, with the decrease since FY'06 caused by the short-term issues within the National Programme. We expect a combination of cost cuts and top-line growth to produce a rebound in PBT in FY'08, for which our estimate is £2.2m.

System C Healthcare

- While the recent lack of progress in the National Programme is disappointing, System C is in a strong position to benefit from increased activity. Further, the repositioning of the business over the last 12 months and the cost cuts expected in the short term mean that the company's earnings will improve significantly when this occurs.

- In the meantime, System C is trading on 30.0x our FY'07 adjusted EPS estimate of 0.7p, falling to 11.4x in FY'08. Taking out the cash, System C is trading on approximately 9x FY'08 estimates. This is a significant discount to Ascribe, the nearest comparable, which trades on 24x consensus estimates to June 2007, falling to 18x for June 2008.

- Our two-year price target of 36p reflects continuing revenue and profit growth in FY'08 and FY'09. This equates to 12.8p cash per share, and a FY'09 ex-cash multiple of 13x. The FY'09 EV/EBITDA multiple would be approximately 3x. We believe that this is justified, given the 163% earnings growth expected in FY'08 and 40% in FY'09. Therefore, the current share price provides considerable upside potential.

Collins Stewart is broker to System C Healthcare and makes a market in the Company's shares.

Ten Alps

Collins Stewart

Nick Batram 020 7523 8413
nbatram@collins-stewart.com

The Digital Evolution

- Ten Alps represents one of the most dynamic and exciting opportunities in the media sector. Turnover and profits have increased four-fold over the past four years through a combination of astute acquisitions and organic growth. We expect the next few years to be equally as active, with a continuation of strategic acquisitions and the development of the group's exciting digital operations

- The company was founded in 1999 by Alex Connock (CEO), Sir Bob Geldof and Des Shaw. The original focus was on the production of television and radio programming, in particular factual content. A reputation for creating high-quality programming has seen the group attract additional talent and broaden its client base, with notable success in the US market. The Communications Act 2003 has proved to be a positive development for independent television production companies and has also led to a wave of industry consolidation.

- Teachers TV was established in 2003, after a consortium led by Ten Alps was successful in winning a four-year Government contract to provide a specialist digital TV channel aimed at teachers in England & Wales. On the face of it Teaches TV simply added to the group's existing television production operations, however, the channel gave Ten Alps a valuable insight into producing and delivering content to a specialist/niche audience. Teachers TV enabled the group to make the next move in its strategic development as a specialist cross-media platform business.

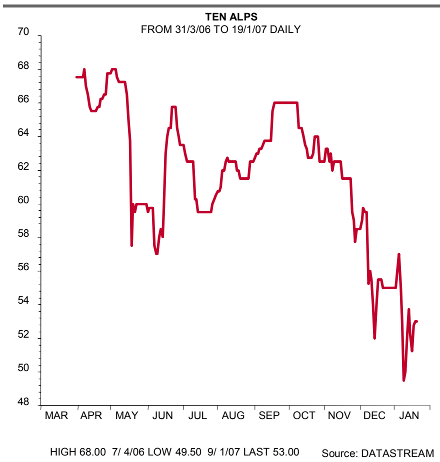
- In March 2006, the group acquired specialist contract publisher McMillan Scott for a maximum consideration of £12.3m. McMillan Scott is one of the UK's leading public sector contract publishers and has over 300 clients including The British Chambers of Commerce, British Waterways, CBI, Nursing & Midwifery Council and The Open University. Now re-branded Ten Alps Publishing, the operation adds a significant number of corporate clients (over 47,000) and an experienced advertising sales team (c.250 people). The business has traded well since its acquisition and in addition has helped the group to develop its most ambitious project to date, Public TV.

- In February 2007 the group plans to launch Public TV, an internet based video portal aimed at Government, organisations and business for news, training, networking and information purposes. The group is leveraging its ad sales team within its Communications Division (i.e. Ten Alps Publishing) and its content and distribution expertise gained from the Broadcast division and Teachers TV. YouTube and MySpace have shown the potential value of content aggregators and if Public TV proves successful, the upside would appear to be substantial.

Recommendation:	**Buy**
2yr Target price:	**70p**
Price:	**54p**
Market cap:	**£28m**

	1m	3m	12m
Absolute (%)	-3	-16	4
Relative to FT All Share (%)	-5	-22	8

Year to December (£m)	PBT	EPS (p)	P/E
2006 A	2.7	3.2	16.9
2007 E	2.7	3.1	12.4
2008 E	4.0	4.6	11.7



Ten Alps

- For the year to March 2008 we are looking for EPS to grow by more than 40% driven by reduced losses from digital, a full year of margin improvement from Ten Alps Publishing and further organic growth. Even including the losses from digital/Public TV (which are being written off to the profit & loss account as incurred), the shares are trading on a prospective PE of less than 12x to March 2008 – the peer group enjoys a 30% premium to this.

- The established operations are effectively trading on a P/E multiple of just 9.5x (this excludes losses at Public TV) to March 2008, a 20%-35% discount against its peer group. Given the track record and the consolidation in the sector, this appears harsh. We do not see this situation continuing; either the market will recognise the value or Ten Alps competitors will. Our immediate price target is 70p but if Public TV comes through then we could be looking at a blue-sky scenario.

- The reality is that for £25m (enterprise value) you get a lot for your money with Ten Alps. With Public TV and a significant amount of industry consolidation there are a number of catalysts that could trigger a re-rating of the stock over the next 12 months. Furthermore, the group is forecast to generate 4.5p of free cash per share and have net cash of c. £3.5m at the year-end. Therefore, the risk reward ratio appears compelling.

Collins Stewart is broker to Ten Alps and makes a market in the Company's shares.

York Pharma

Navid Malik 020 7523 8414
nmalik@collins-stewart.com

Dominant in Dermatology

- Within the past 12 months there have been a series of M&A and licensing deals struck in the Pharmaceutical sector, several of these transactions have taken place within the UK sector. Pharma companies including GlaxoSmithKline and AstraZeneca have been actively buying biotechnology companies. Typically these transactions are being conducted on a global basis and premiums being paid have exceeded 100%. Two examples of such deals include Merck & Co's acquisition of Sirna for US$1.1 billion (102% premium in October 2006) and AstraZeneca's bid for Cambridge Antibody Technology for US$1.3 billion for the remaining 81% which it did not own (66% premium in May 2006).

- Pharmaceutical companies are currently awash with cash. Pfizer for example has US$17 billion available this year for M&A in the biotech field. Like many other Pharma companies, Pfizer is having significant late-stage pipeline issues. Following the failure of its late-stage potential blockbuster Torcetrapib, a potential treatment for cholesterol control and follow-on product to Lipitor (its number one selling product), Pfizer is facing a double-jeopardy dilemma: patent expires and a general failure in its development pipeline.

- Valuations within the broader biotech sector have recently been growing however; compared to US and European peers, valuations in some UK Biotech companies are still at a relatively large discount to what we would consider to be fair value. We have identified one company: York Pharma, a specialty Pharma with a market capitalisation of £28 million. We believe that York Pharma will achieve its first profit in fiscal 2008 (net income of £3 million on sales of £37 million) as licensing income and revenues build out from its own product portfolio.

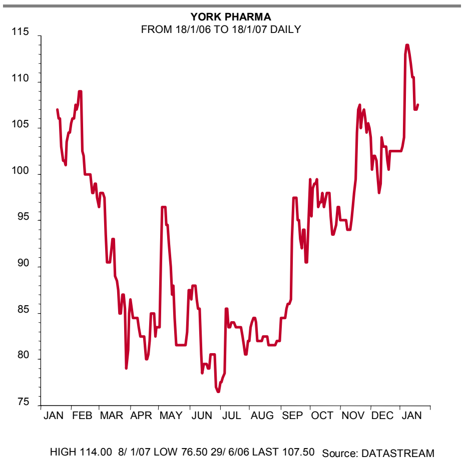
- York Pharma fits our preferred risk profile as an attractive Biotech investment for a number of reasons. Firstly, it has a maturing pipeline with its first product (Abasol) and granted an approvable letter (late last year), we expect full approval in H1 07. This means that York Pharma's first product sales from the UK market will begin this year. Abasol will compete with a blockbuster product from Novartis (Lamisil – 2005 sales were US$1.1 billion), which suffers from safety issues (liver toxicity). We believe that Abasol has an excellent safety profile with no toxicity issues and a superior efficacy profile to Lamisil; this in our opinion will drive out licensing opportunities for Abasol for the US, European and Japanese markets.

- Abasol is a drug which treats skin and nail fungal infections. A market which was valued at US$2.65 billion in 2005. We see peak sales for Abasol in one indication (dermatomycosis – skin infections in 2013) of £86 million with a 70% gross margin. Based on our NPV calculation for this product, we have calculated a value of £62 million for the drug, without taking into account the second indication the drug is in development for: Onychomycosis (nail infections). This represents 70% of our £87 million (342p) price target. Given the product will be launching into its first market shortly (in the UK), the value for this product is already being realised commercially.

Recommendation:	**Buy**
2yr Target price:	**342p**
Price:	**106p**
Market cap:	**£27m**

	1m	3m	12m
Absolute (%)	3.9	7.7	-0.5
Relative to FT All Share (%)	3.8	5.6	-10.5

Year to September (£m)	PBT	EPS (p)	P/E
2006 A	-5.8	-26	N/A
2007 E	-1.4	-6	N/A
2008 E	3.0	13	9X



York Pharma

- Last year York Pharma held an impressive R&D day in London (30 October) where it highlighted the novelty of its pipeline, and the breadth and depth of the products in research and development. In dermatology, York appears to have a strong competitive advantage against its peers. This means that York could offer further licensing inflection points in the near term to create further value for investors. For example, Sabarep™ (eczema) & Vampex™ (psoriasis) are both in Phase II and progressing strongly.

- York has a current cash position of £6 million, which should provide it with sufficient funds to take it through to profitability. The strength of the balance sheet will also assist with current licensing negotiations.

- We believe that York Pharma has a strong pipeline, something which is generally lacking with peer biotech companies. In the past 12 months, it has successfully moved a number of key projects into Phase II trials, meaning that later this year, it could have two more late-stage Phase III products ready for out-licensing, and subsequent regulatory filings in the areas of Psoriasis and Eczema should follow.

- York Pharma addresses 75% of the dermatology market with its products. The dermatology market is currently valued to US$10 billion globally. With its market cap at £27 million (106p), York Pharma represents an excellent value play, with a low-risk profile, and a diverse range of assets in development.

Collins Stewart is broker to York Pharma and makes a market in the Company's shares.

Disclosure.

Research Recommendations issued by Collins Stewart Limited in Q3 2006			
Recommendations	**Buys**	**Sells**	**Hold/Neutral**
Percentage of Total	60%	20%	20%
Percentage of which in Corporate Client stocks	22%	2%	6%

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