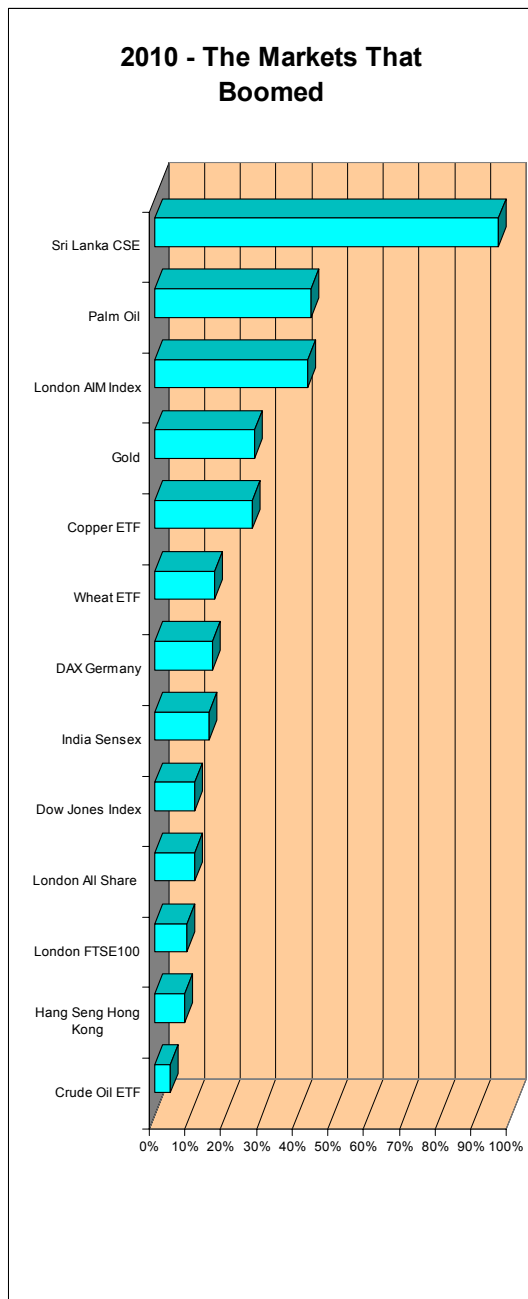


# The Monthly January 2011

05 January 2011



These are our bets on the underlying background for investment in 2011:

**Interest Rates will rise.** This will be the key factor for the investment world that will differentiate 2011 from 2010. In the UK rates have to rise, if only to prevent inflation going totally haywire. To date, interest rates have been held artificially low for two reasons. The first is in order to protect house values, because house values are the bedrock of the British economy. The second is in order to keep down Government borrowing costs while this is still possible. But increasingly, interest rates for industrial borrowers have been moving while the Base Rate has stayed static. Also, the money just isn't there for lending, and like any other price mechanism, the interest rate is there as a mechanism to equate supply with demand. There is unfulfilled demand for loans (from would-be housebuyers, from industry, quite possibly also from the Government).

**Inflation will increase.** This is the big one. The declining value of Sterling means the country will be importing inflation in terms of higher prices for its imports. For two years now the UK inflation rate has been above the Government's imposed guideline. This will intensify.

**House Prices will stabilise once interest rates have risen.** The restraining factor here is no longer the cost of monthly repayments, it is the availability of mortgage money. Paradoxically, higher interest rates will produce stability in house prices in areas dominated by owner-occupiers. In those areas of the buy-to-let market without a significant international presence, there will be problems.

**Pension Fund Deficits will narrow.** Higher interest rates on long bonds mean lower discount rates. This will be good news for any company where the pension fund deficit has a stranglehold on corporate strategy.

**Long Bond Prices will drop.** Once again, bonds will be a rubbish investment. How typical that the Pensions Regulator is still insisting that pension fund managers shift even more money out of equities and into bonds. Haven't they heard of Ireland, of Greece, of Portugal? US banking analyst Meredith Whitney says there will be 50 – 100 sizeable local government bond defaults in 2011. Warren Buffet says that US municipal bonds face 'a terrible problem' in the later years of this decade. →

Market Indicator	Price	Previous Month Price	% Change in 1 month	Year High	Year Low
FTSE 100	6,001	5,652	6.2%	6,014	4,806
FTSE Small Cap	3,244	3,013	7.7%	3,249	2,640

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**Oil Prices will rise.** 2010 wasn't a particularly active year for speculation in crude oil, not compared to previous years at least. There isn't a great risk of a flight of hot money here. Underlying demand from the real economy, a factor which cannot be entirely ignored, will be rising.

**Base Metal prices will stall.** Price gains here have been driven rather more by hot money, witness the growth in Exchange Traded Funds in the metals over the last six months. Rising interest rates, not just in Britain but worldwide, will give an opportunity cost to holding metals as an investment.

**The Gold Price has seen most of its rise.** There is an opportunity cost to holding gold as well. Historically, gold has always done best in times of real negative interest rates. The latest of these periods is now ending.

**The Pound will sink. But not as fast as the Euro.** The Euro has a real problem. The German economy is fantastic and will continue to be so, but it is now being bled white by its hangers-on. Economic common sense demands that the weakest members be relegated – out of the Premiership into the Conference League, if you like. But to dump even one member would risk a 'domino theory' style collapse as markets bet on which would be next. Germany has the toughest decisions to make politically in 2011. Fortunately it has the most capable leader of all in position to make them.

**China and India will continue to be the world's economic powerhouses.** The GDP growth rate in India is forecast at 8.75% for 2011, for China it is forecast to be 9.9%. China's increasing political and military power (including its new power to hit US aircraft carriers with satellite guided missiles) will make Taiwan and possibly South Korea less comfortable places to be.

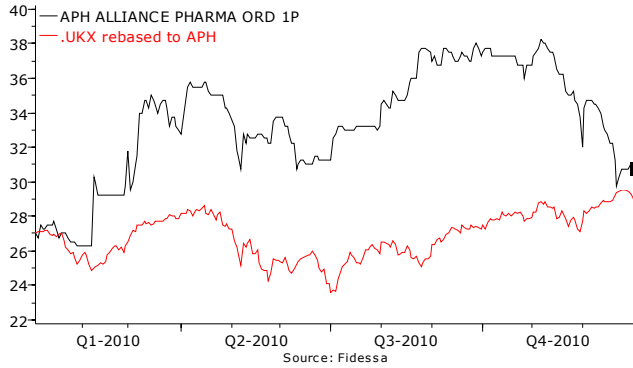
**Equity Prices will lose their upward impetus** because of rising interest rates. The UK equity market will be stock specific; there are some great investment stories out there, many of them in the pages of this 'Monthly', and stock picking will be the key to fund management performance in 2011. A higher cost of capital usually means tougher times for equities, though not always. UK equities will be at particular risk here because, unlike equities in some other countries, the higher cost of capital will not be offset by higher economic growth rates. The biggest argument in favour of UK equities continues to be the lack of a viable alternative. The FTSE 100 will be ok because so much of it is international. Purely domestic stocks will have a tougher time of it. Our guess for the year-end FTSE100: a 5% gain, to 6,300, driven by overseas stocks and exporters.

**Agriculture will be the big play for 2011.** We highlighted this as the big play for 2010 also, and were utterly correct to do so. Agricultural land is the closest thing to an alternative to equities for long term investment. As far as agricultural commodities are concerned, there is a worldwide **wheat** shortage that will continue for the whole of this year, almost regardless of the 2011 Northern Hemisphere harvest because worldwide stocks are so low. **Palm oil** prices have one more year of steam left in them, possibly more, because stocks are still low, so much of the new planting done two and three years ago was done badly and fertilised poorly, and oil palms take four years from planting to produce sensible quantities of oil. Palm oil and wheat prices will also be underpinned by biofuel demand on rising crude oil prices.

**Internationally, Sri Lanka is our big play** for 2011. Its stock market rose by 96% in 2010, making it the fastest growing stock market in the world. But the Sri Lanka economy has only just started to get into its stride following the ending of the Civil War. As long as Sri Lanka can stay peaceful, look for 8% p.a. growth in the economy and a massive resurgence of tourism, already growing at 35% p.a. Also, Sri Lanka is one of China's favourites, with massive Chinese investment going into port facilities as the country becomes a key link in its 'string of pearls' expansion strategy. The market on a whole is on a trailing quarterly p/e ratio of 20, scarcely more than the UK. As far as sectors as concerned, we like Sri Lankan hotels, but their p/e ratios are high, these were the story of 2010. For 2011, we rather like the Sri Lankan financial sector. Whoever heard of a Sri Lankan bank with a US sub prime mortgage?

*During 2011, we shall be paying increasing attention to agriculture worldwide, and to Sri Lanka. We shall be working closely with **Asia Capital**, Colombo's premier stockbroking house and probably also its largest, in providing this research.*

**ALLIANCE PHARMA**

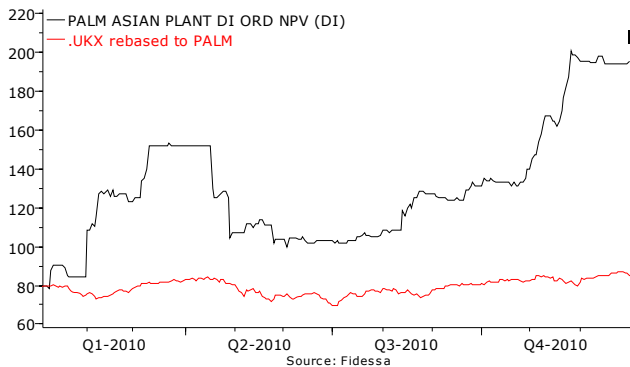


Last year Alliance alerted the market that a competitor for its Deltacortril brand has entered the market. The company is Teva UK Ltd and its generic version of a Prednisolone enteric-coated tablet was launched on 23 November. Throughout 2010 Alliance has generated just over £1.0m per month in revenue from the sale of Deltacortril. Following the introduction of Teva's generic version we expect Alliance's sales of the brand to reduce by around a third. Teva's entry into the market was anticipated and the impact of the entry factored into our forecasts. With the shares having dipped 19% from their year high and still trading on a moderate p/e ratio of circa 6.5x there looks to be a potential

buying opportunity here.

Alliance Pharma				APH	Price p.	30.75	
AIM				Pharmaceuticals	Cap £m	71.2	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	£m	Profit £m	Profit £m	Basic eps p.	Ratio	p.	%
2008A	21.8	2.40	2.40	1.17	26.3	0.00	0.0
2009A	31.2	5.70	8.60	3.55	8.7	0.30	1.0
2010E	50.2	12.40	16.60	4.69	6.6	0.50	1.6
2011E	43.2	10.20	10.80	3.27	9.4	0.50	1.6

**ASIAN PLANTATIONS**

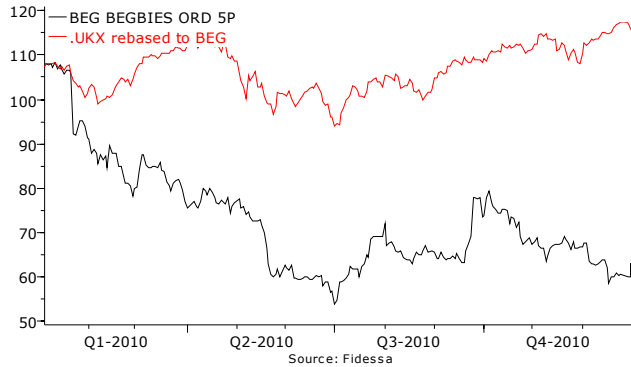


In the past 6 months Palm oil futures have advanced 67% and the commodity is now trading at over \$1240 per tonne; today it is circa 3 x the average traded price in 2006. Growing demand from India and China coupled with pressure from the biofuels sector on vegetable oils, have combined with the climate havoc affecting the Russian grain harvest and dry weather conditions in Argentina [one of the world's largest producers of soya oil] to drive vegetable oil reserves to a 7 year low. Asian Plantations share price has risen 66% since we first wrote about the company in August last year, a reflection of both investor enthusiasm for oil palm plantation investments and

the [to date] flawless execution of the company's development strategy; with over 15,000ha of plantation land in the process of being planted, out of an original target of 20,000ha, we are expecting further land acquisitions in 2011.

Asian Plantations				PALM	Price p.	208.50	
AIM				Agriculture	Cap £m	69.7	
Y/E	Sales	Profit / (Loss)	EPS	P/e	Div	Yield	Planted
Dec	\$m	\$m	\$	Ratio	c.	%	Hectares
2009A	-	(1.40)	(0.07)	-	-	-	-
2010E	0.32	(4.06)	(0.12)	-	-	-	4,510
2011E	1.32	(5.93)	(0.18)	-	-	-	6,886
2012E	2.36	(8.43)	(0.25)	-	-	-	13,749

**BEGBIES TRAYNOR**



Begbies announced its results for the six months to end-October 2010 in mid-December. Very much as expected, given the two recent trading updates, these showed revenues little changed, at £34.4m. A slowdown in the core Insolvency & Restructuring division was compensated for by strong growth in the Taxation and Global Risk Partners divisions. The change in the mix of contributions from the divisions, however, meant that – as Insolvency & Restructuring enjoys the strongest margins – underlying operating profit fell by 13%, to £4.1m. Higher net debt, and an increase in the margin on the revolving credit facility, saw the net interest charge increase, extending the fall in adjusted PBT,

at £3.6m, to 18%.

The Group ended the period with headroom of over £10m (30%) in its principal bank facilities despite the lengthening of the “lock-in” on its fee debtors to eight months and spending £2.5m on acquisitions.

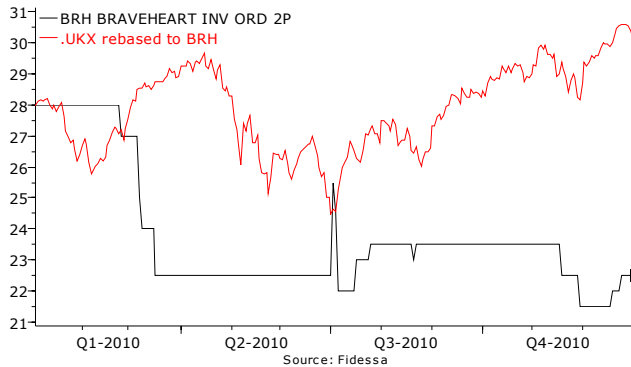
It now appears clear that UK corporate insolvencies in 2010 will not reach the R3 forecast of 28,000 cases as low interest rates and other support measures continue to help companies to survive. Given that the nine month total is just 17,300 cases, we believe that 21-22,000 cases will be a more likely outcome for the year, representing a fall of 16-21% over 2009. Looking forward to 2011, we note that R3 recently published a forecast of 27,500 cases – an increase of at least 25% on our expectations of the outcome for 2010. This appears too high; we believe that growth to c23,500 cases is more likely.

We have adjusted our forecasts for FY 2011 and FY 2012 to reflect this lowering of expectations for the number of corporate insolvencies – but also reflecting the strong growth in the other two main divisions. Our revised forecasts are shown in the table below. Even with this revision, we are still forecasting that – subject to any further acquisitions – Begbies will still have headroom of c£9m (26%) in its principal bank facilities at April 2012, confirming our view that Begbies is well placed to weather the difficult asset markets that have caused a significant – but temporary – rise in working capital lock-in periods.

*Begbies’ interim results were reviewed in our research note of 23 December 2010. This is available on our website. Please contact the office if you would prefer it in hard copy.*

Begbies Traynor				BEG	Price p.	60.00	
AIM				Support Services	Cap £m	53.7	
Y/E	Group	Declared	Adjusted	Adjusted	p/e	Divi	Yield
April	Sales £m	Profit £m	Profit £m	eps p.	ratio	p.	%
2009A	62.1	7.3	9.9	7.8	7.7	2.8	4.7
2010A	69.1	8.7	10.5	7.9	7.6	3.1	5.2
2011E	70.1	6.3	8.0	5.8	10.3	3.1	5.2
2012E	75.3	9.7	10.1	7.3	8.2	3.1	5.2

**BRAVEHEART INVESTMENT GROUP**

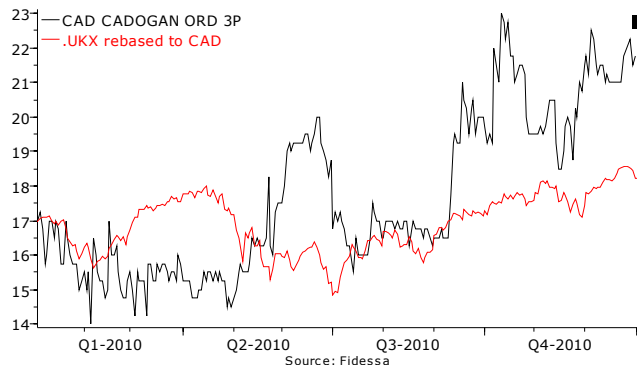


Braveheart Investment Group has led a £300k funding round into existing portfolio company, Tayside Flow Technologies (TFT). TFT was set up to develop and commercialise cardiovascular devices based on an understanding of blood flow dynamics. Cardiovascular disease is the number one cause of death worldwide and according to the World Health Organisation is expected to remain the number one cause of death for some time yet. TFT has already secured regulatory approval in Europe and the US for its first two products and to date 29 distributors have been appointed covering over 20 countries.

Investors, newly acquired in October 2010, has also led two funding rounds since our last update. In the first, £1.5m has been raised for Chargemaster plc, a provider of charging solutions for electric vehicles. Chargemaster’s charging solutions are installed on streets, in public car parks, at supermarkets, office car parks and individuals’ homes. Demand for the company’s products is expected to grow as the major automobile manufacturers continue to develop electric cars and electric cars are expected to account for circa 10% of all cars sold globally by 2020. Nissan has already released a version, the Nissan Leaf and Chevrolet has released the Chevrolet Volt. Ford plans to release its version, the Focus, later this year. In the second, £260k was raised for payasUgym, a programme allowing customers to visit a network of gyms on a pay as you go basis. The programme is aimed at consumers who are looking for greater flexibility in their gym membership choices.

Braveheart Investment Group				BRH	Price p.	23.50	
AIM				Equity Investments	Cap £m	3.3	
Y/E	Income	Declared Profit	Adjusted	Declared EPS	NAV/share	Divi	Yield
March	£m	IFRS £m	Profit £m	IFRS p.	p.	p.	%
2009A	0.3	-1.3	-1.3	-9.2	44.4	-	-
2010A	0.9	-0.8	-0.8	-5.6	40.2	-	-
2011E	0.8	-1.0	-1.0	-7.2	34.1	-	-
2012E	2.2	0.08	0.08	0.6	31.4	-	-

**CADOGAN PETROLEUM**



More positives on the corporate front for Cadogan as it reached settlement with its former CEO, Mark Tolley. The agreement will see \$3m, currently held by a British court, released to Cadogan and approximately a further \$1m of cash & assets also returned. Court cases are still outstanding with other former officers of the company, however this settlement represents the most significant financially. In addition, \$7.5m has been received from the gas equipment supplier, GPS, as part of the remaining \$30m settlement to be paid by the end of FY2011. The purchase agreement with Nadra regarding the Zag and Pirk fields has been completed and \$1m out of \$3.2m has been paid so

far.

Cadogan has set its 2011 E&P budgets accordingly with \$9.6m set aside for works to triple production from its current 450 boepd. This is a very low cost development plan comprising mainly of work-overs and maximising production from its shallow fields, but it also should provide new data regarding geological closure on some of the gas-bearing structures already identified. It was uncertainty about the nature of these closures that was a major contributory factor in a large portion of Cadogan's reserves being downgraded to resources. Cadogan's current geological model for some of these fields, notably Zag and Pirk, differs from that which had been downgraded. Additional data generated by these drilling operations, and other exploration activities, is expected to allow recalculation and expand the company's 3P reserves, though this is most likely a job for H2-2011. The company expects a doubling of 3P reserves from 7.7m boe.

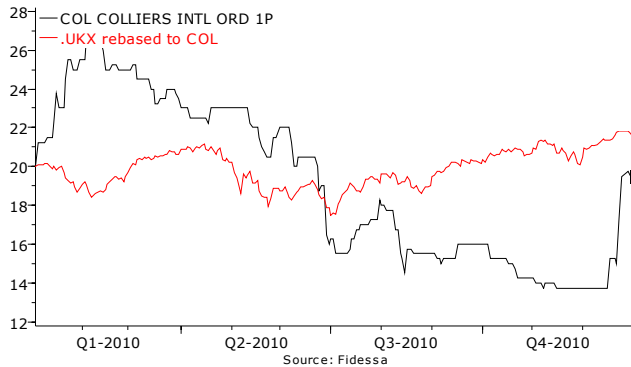
Should the geology be found to be positive and internal production targets met then a further \$21.7m has been budgeted for expansion of production targeted at five times current (approx 2,250 boepd). At \$80/bbl this would give pre-tax cash flow roughly equivalent to \$180k pd or \$66m pa. Cadogan currently has \$38.7m in cash so is well able to self-fund either program through 2011, especially considering its current production of 450 boepd.

Large shareholder and supporter of the moves in 2010 to liquidate Cadogan, QVT LLP, continues to sell down its stake in a controlled manner. Previously at over 16% the US-based hedge fund now holds below 13% of current issue. The company presented at December's Oilbarrel conference in London and, despite riots and disruptive snowfall, was apparently well received.

Finally, and bad news for all Ukrainian gas producers, VAT on natural gas sales is to be applied at 18.5%. It remains to be seen quite how this new tax will play out with local business interests as the country repays \$15bn of IMF stability loans and GDP is forecast to drop 15% in 2010. Cadogan reports that it has joined the lobby against the tax.

Cadogan Petroleum		CAD		Price p.	21.00		
Full List		Oil & Gas		Cap £m	48.5		
Y/E	Group Sales	Declared Profit	Adjusted	Adjusted EPS	P/E ratio	Divi	Yield
December	£000	£000	Profit £000	p.		p.	%
2008A	1,792	-24,877	-34,363	-17.0	-	-	-
2009A	2,342	-107,303	-118,680	-46.0	-	-	-
2010E	No	Estimates					
2011E	No	Estimates					

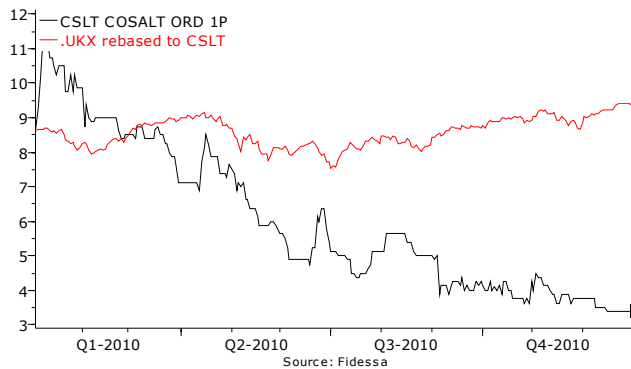
**COLLIERS INTERNATIONAL UK**



There has been no news from Colliers International UK this month. In general sector news DTZ Holdings released its half yearly results on 15 December. While the company has been winning new instructions and its pipeline remains healthy lengthened transaction times are continuing to adversely impact on revenues. The group continues to remain cautious on the property market outlook.

Colliers International UK				COL	Price p.	19.5	
AIM				Real Estate	Cap £m	29.1	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	£m	Profit £m	Profit £m	Basic eps p.	ratio	p.	%
2008A	78.0	-11.1	-4.6	-11.8	-	-	-
2009A	57.9	-39.6	-13.5	-21.3	-	-	-
2010E	68.4	-	-	-	-	-	-
2011E	76.6	5.6	5.6	3.8	5.1	-	-

**COSALT**



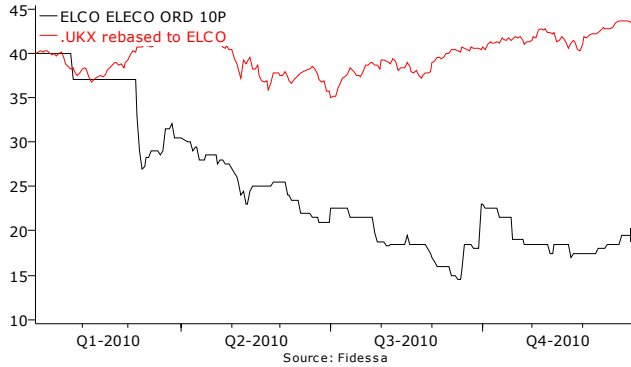
Cosalt's full year results for the y/e October 2010 will be announced in February. Alongside the numbers we look for an update on a) the amount of damages expected to be received from the court action against former directors Calum and Stuart Melville, b) the possible sale of the Marine business and c) progress made at Cosalt Wind Energy, the group's newly formed joint venture with Danish Engineering Company APRO providing operations and maintenance services to the fast-growing UK offshore wind industry.

Prime Minister David Cameron recently described the opportunities for green energy around the Humber estuary as 'huge' following confirmation of the £60m funding for port site land development in the Chancellor's Spending Review. We therefore believe the venture into wind farm servicing has considerable promise, but this won't have any impact on the p & I account until 2011.

Further changes to the Board were announced in December with the resignation of non-executive director Simon Gilbert due to 'increased executive commitments elsewhere'. Mr Gilbert was a representative of institutional shareholder Hanover and joined Cosalt in November 2009.

Cosalt				CSLT	Price p.	3.63	
Full List				Diversified Inds	Cap £m	14.7	
Y/E	Sales	Declared	Adjusted	Headline	p/e	Divi	Yield
October	£m	Profit £m	Profit £m	eps p.	ratio	p.	%
2008A	105.0	1.5	7.2	7.7	0.5	6.0	165.3
2009A	107.8	-3.4	5.5	4.2	0.9	0.0	0.0
2010E	97.1	-1.3	3.0	0.5	7.3	0.0	0.0
2011E	109.7	1.2	4.2	0.8	4.5	0.0	0.0

**ELECO**



Sub-zero temperatures and heavy snow don't do a lot for the pre-cast concrete industry, or indeed for the construction industry generally. We think it inevitable that Eleco will have a poor December, which is a shame because the AGM in November made clear that for the first five months of the current year Eleco was making great strides towards recovery after last year's losses.

It is clear to us that Eleco will have made a loss in the first half, July-December, of its current financial year. However, we expect it to be modest, and this company is taking all the right steps to return to profitability. Eleco has taken some hard but

necessary decisions on the cost cutting front.

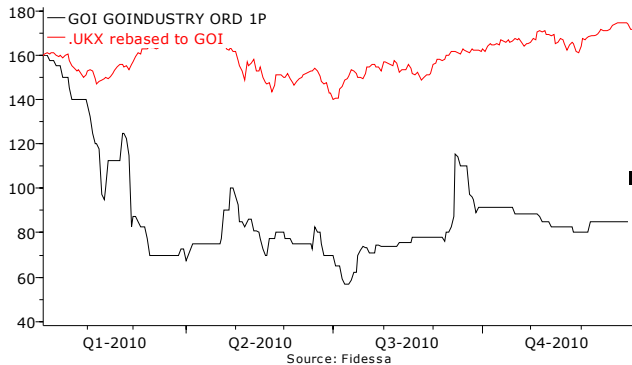
The bad weather may mean that the prison build contracts, that we had expected to complete in January or February, may take a month longer to complete than we had thought. The sheer difficulty of moving trucks around the road network and construction sites has held up all building work up and down the country. Sub-zero temperatures create problems with concrete casting, even under cover, and most (though not all) of Eleco's casting capacity takes place within large sheds.

It will be interesting to see if Eleco issues a trading update ahead of its Interim Results announcement, which we expect in late March.

The rise in long bond interest rates should, when coupled with other measures, result in a reduced pension deficit at the end of the current financial year. The pension issue at this company is not huge, and has only merited analytical attention during the last two years when the construction industry has been flat on its back.

Eleco					ELCO	Price p.	19.5
AIM					Diversified Inds	Cap £m	11.8
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
June	£m	Pre-tax Profit £m	Pre-tax Profit £m	eps p.	ratio	p.	%
2009A	70.6	-1.4	0.9	1.4	13.9	0.8	4.1
2010A	58.0	-5.9	-5.4	-8.4	-	0	0.0
2011E	56.0	-2.0	-0.9	-1.5	-	0.0	
2012E	Under	Revision					

**GOINDUSTRY DOVEBID**



GoIndustry DoveBid’s business continues to be busy with auctions/sales including aluminium window manufacturing machinery for Cardiff based Glamalco which recently went into administration, surplus packaging equipment in Japan for Procter & Gamble, surplus production equipment from a multinational disk drive manufacturing company in Malaysia, and even a UK based pharmaceutical reactor pilot plant.

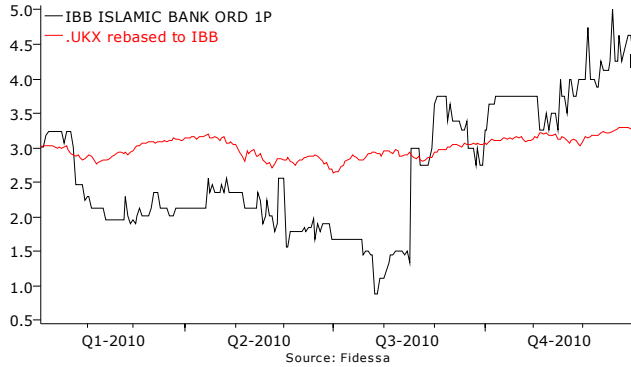
On the corporate front GoIndustry DoveBid has announced the reorganization of the group structure of the group’s US operations. Going forward all of the group’s US activities will be

conducted by either of GoIndustry, USA (being re-named GoIndustry DoveBid Inc) or DoveBid Valuation Consultants, Inc (being renamed GoIndustry DoveBid Valuations Inc). Two other subsidiaries, GoIndustry Operations, Inc and DoveBid, Inc have ceased, or will cease to exist. Following the reorganization all of the group’s activities will operate under the GoIndustry DoveBid brand. We expect some small administrative cost savings to be made as a result of the reorganization.

Also the deferred shares issued at the time of GoIndustry DoveBid’s share capital restructuring in June 2010 have now been repurchased and cancelled.

GoIndustry DoveBid				GOI		Price p.	105.0
AIM				Support Services		Cap £m	10.3
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	£m	Pre-tax Profit £m	Pre-tax Profit £m	eps p.	ratio	p.	%
2008A	36.9	-30.2	-4.3	-1	-	0	-
2009A	42.0	-4.7	-1.4	-0.3	-	0	-
2010E	41.5	-0.7	0.5	4.6	22.8	0	-
2011E	43.9	0	0.8	7.9	13.3	0	-

**ISLAMIC BANK OF BRITAIN**



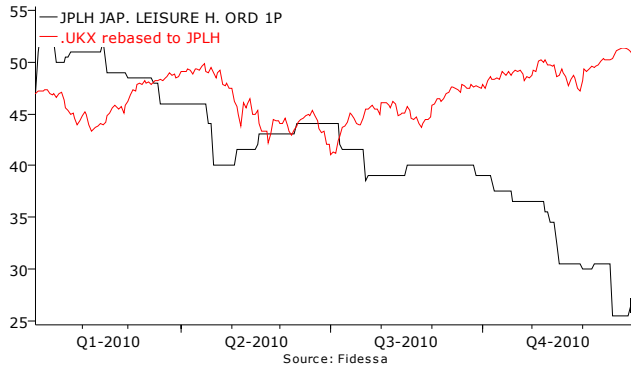
Non-executive director Robert Owen has assumed the role of non-executive chairman following the resignation of Mohsen Moustafa. We expect further announcements of new directors to follow in due course.

Islamic Bank of Britain is the only independent retail bank in Britain with a portfolio of products that are fully Sharia'a compliant. A successful £20m fundraising in July raised the group's core capital ratio and a strategic review of the business in conjunction with majority (80.95%) shareholder Qatar International Islamic Bank (QIIB) is now underway.

Islamic Bank of Britain's full year results will be announced in early/mid March. The share price has been volatile in the run-up to the results but overall has risen 6.25% over the course of the last month.

Islamic Bank of Britain				IBB	Price p.	4.25	
AIM				Financials	Cap £m	108.2	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	£m	Profit/Loss £m	Profit/Loss £m	Diluted eps p.	ratio	p.	%
2008A	4.3	-5.9	-5.9	-1.4	-	-	-
2009A	3.1	-9.5	-9.5	-1.8	-	-	-
2010E	Under	Review					
2011E	Under	Review					

**JAPAN LEISURE HOTELS**



Japan Leisure Hotels has been placed on the Takeover Panel List following the announcement that its majority shareholder would like to exit and is taking 'active steps towards this end'. The announcement stated that 'it is not anticipated that any offer for the company will deliver a premium . . . it may even result in a discount'. The statement was followed by an immediate drop in the share price from 33p to 25p.

It has been clear for some months that the majority holder would like to sell its shares. This would not necessarily mean a bid, it could have been – and could still be – through a placing with a number of

institutions. Unfortunately institutional appetite for Japanese stocks has been limited this year.

At no point in the public announcement does JPLH state that a bidder has come forward. Rather this can be viewed as the start of a semi-public auction process that could result in either a bid, the splitting up and sale of the six hotels individually, or even at this late state a placing of the shares with many different holders.

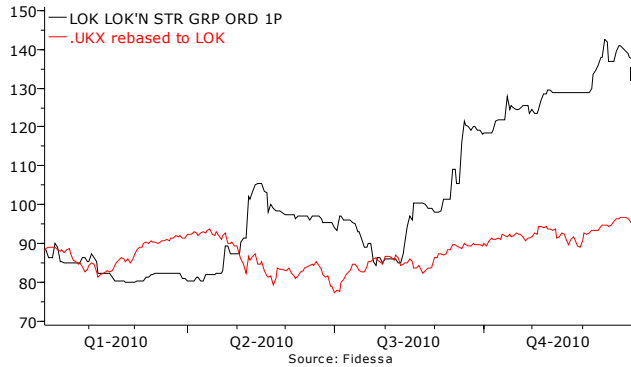
A fuller analysis of the current situation, together with some valuation comparisons, was published in our December 22 research note. Please call or email for a copy.

*Hardman & Co is a connected party under Takeover Panel regulations because it is contracted to write research on the company.*

Japan Leisure				JPLH		Price p.	26.5
AIM				Hotels		Cap £m	11.7
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	¥m	Profit Ym	Profit .Ym	eps UKp.	ratio	p.	%
2008A*	1,183	227	-21	0.0	-	0.0	-
2009A	1,197	264	0	0.0	-	1.0	3.8
2010E	Forecast	Removed	For	Regulatory	Reasons		
2011E	Forecast	Removed	For	Regulatory	Reasons		

\*Minor revision to 2008 historic numbers

**LOK'NSTORE**



Lok'nStore's shares have risen 9% since our last Monthly and are up 67% YTD, significantly outperforming the shares of both Big Yellow and Safestore on a twelve month basis.

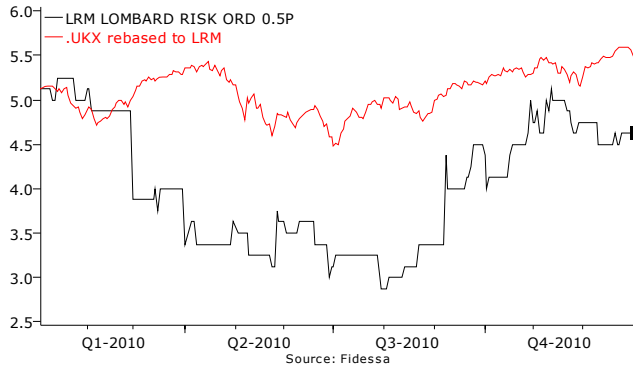
Two new asset management deals were announced in December. The first is a partnership agreement with budget supermarket chain Lidl for the shared use of the group's Maidenhead development store. The 1.6 acre, 68 year leasehold site is located in a high footfall area opposite a busy retail park. A four-storey 58,000 sq ft new build self storage unit is planned for the site, with Lidl's retail store occupying part of the ground floor.

Subject to planning consent, the new Maidenhead store is expected to open in 2013. No financial details have been disclosed but it is clear that by collaborating with Lidl the funding requirements of the site will be reduced. Also, Lok'nStore will benefit from increased traffic to the site estimated at c.1,000 cars a day.

The second deal is a sensible lease renegotiation on improved rental terms on one of the group's stores. The agreement, backdated to 25 March 2010, extends the lease to 24 March 2026, with an option to extend the lease for a further 10 years thereafter. It will result in an immediate cash inflow of £40,000 and annual cash savings of £40,000 until 2015. This latest lease renegotiation extends the average maturity of the group's leaseholds from 13 years to 16 years, up from 9 years three years ago. This is significant because 50% of the store portfolio is made up of leasehold stores and it follows that an increase in the average maturity of the leases increases their value which will almost certainly have a positive impact on the NAV/share.

Lok'nStore				LOK		Price p.	133.5
AIM				Support Services		Cap £m	34.2
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
July	£m	Profit/(Loss) £m	Profit/(Loss) £m	eps p.	ratio	p.	%
2009A	10.0	-0.66	-0.66	-2.40	0.0	1.00	0.7
2010A	10.4	0.43	0.43	0.90	148.3	1.00	0.7
2011E	10.9	0.6	0.6	1.6	83.4	1.00	0.7
2012E	No	Forecast					

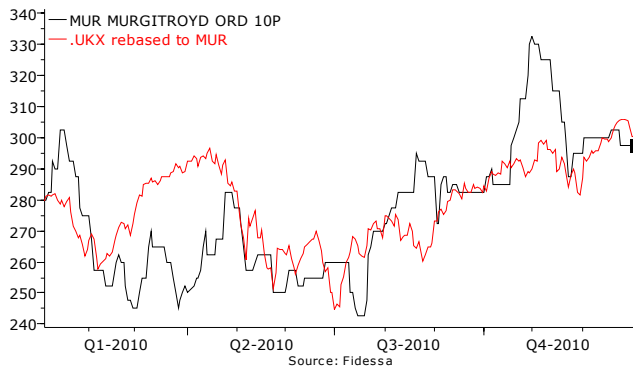
**LOMBARD RISK MANAGEMENT**



Lombard Risk Management's shares continue to trade at a level that provides investors with an attractive entry point into a company that is growing its top line by over 30%. Ongoing regulatory changes in the financial sector will drive Lombard's growth and should see the company enter profitability in 2011. We understand that the company is on track to meet expectations and that the hunt for a new Finance Director is being progressed.

Lombard Risk Mgt		LRM			Price p.	4.63	
AIM		Software			Cap £m	9.6	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
March	£m	Profit/(Loss) £m	Profit/(Loss) £m	Basic eps p.	ratio	p.	%
2009A	8.7	-1.25	-1.25	-0.8	0.0	-	-
2010A	8.9	-1.59	-1.59	-0.9	0.0	-	-
2011E	11.3	0.42	0.72	0.3	15.4	-	-
2012E	12.3	1.10	1.10	0.5	9.3	-	-

**MURGITROYD**



Murgitroyd continues to actively recruit, advertising for new staff in the UK, France and Ireland. Business is going well at the Group's newly enlarged US based office and at its recently opened business development office in Japan.

In industry news, Patent translation provider, RWS Holdings, released its results for the year ended 30 September 2010 last month. Revenue was up by 9.6% while underlying profitability was up by 2.9%. The company has had a number of new contract wins in both Europe and in North America while demand for its Beijing based translation service has grown substantially.

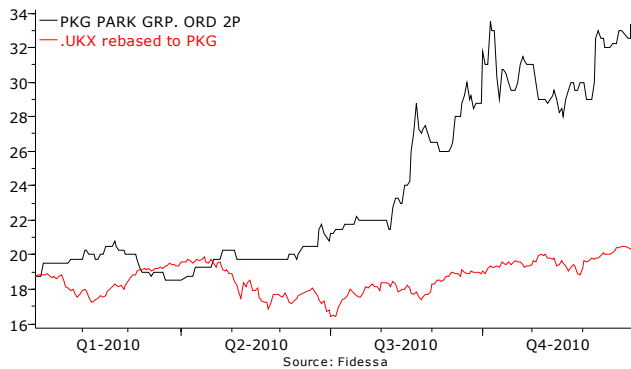
Murgitroyd		MUR			Price p.	297.5	
AIM		Support Services			Cap £m	25.3	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
May	£m	Profit £m	Profit £m	Basic eps p	ratio	p.	%
2009A	28.9	3.1	3.4	27.0	11.0	9.5	3.2
2010A	29.4	3.8	3.7	29.9	9.9	10.0	3.4
2011E	30.1	3.8	3.8	30.8	9.7	10.5	3.5
2012E	31.1	3.9	3.9	31.8	9.4	10.5	3.5

**PALM CITY LIBYA**

The letting of the remaining vacant apartments in Tripoli is almost completed, and the business is progressing well. Palm City Libya is about to enter the world of quoted investments with joint listings on AIM Italia and Malta. It has a reliable and high quality rental portfolio, most of the tenants being either major Western multinational companies or their employees. It will offer a good yield to institutional investors, and a way for institutions to obtain exposure to the rapidly growing and strategically significant Libyan economy.

Palm City AIM Italia (pending)	(Awaited) Real Estate				Price €. Cap €m	200 approx	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	€m	Profit €m	Profit €m	Basic eps	ratio	p.	%
2008A	-	-	-	-	-	-	-
2009A	-	-	-	-	-	-	-
2010E	No	Forecast					
2011E	No	Forecast					

**PARK GROUP**



Interim results showed a 49% increase in revenue, a peak cash balance of £140m, 17% ahead of the previous peak, and growth in the new *flexecash* pre-paid card that has been running at £1m a week. Park Group has been turning into a growth stock, repaying our faith in the company three years ago when the shares were down at 12p, everybody else seemed to be kicking the company, and we ourselves were receiving criticism for the optimistic language we were using.

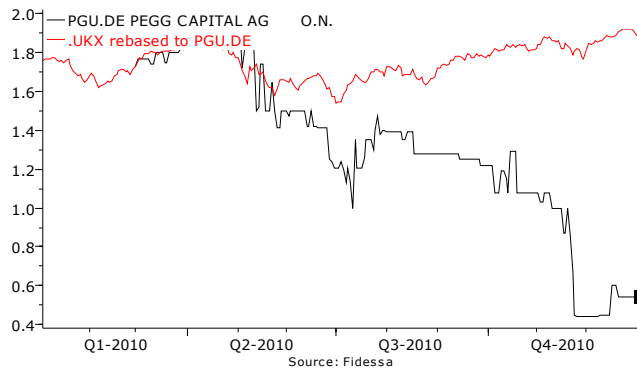
The key to analysing the company in future will be the progress, and strategic direction of *flexecash*. It is already clear that this card is a resounding

success, and that it is proving so mainly in the corporate incentives market, without cannibalising to any great extent the existing Park business. In other words, the growth coming from *flexecash* is in the main genuine growth that benefits shareholders, rather than just another way of doing old business. It will be evening out group cash flows, because this is year round business, not Christmas savings (or at least, in the main not Christmas savings). It will be improving group margins, because a great deal of the paper processing that takes place with voucher schemes has been removed. Beyond that, predicting the future course of *flexecash* is an interesting intellectual exercise. It is so new, and so different from anything else in the market, that it could take off in totally unexpected directions. Park Group may well have a tiger by the tail with this product.

As a further 'plus' point for Park Group, interest rates are trending up, and the first rise in Base Rate for two years is due, arguably overdue. As the custodian of £140m of other people's money, the interest on which stays within the company, interest rates are of critical interest to Park Group, and in so-called 'normal' times in the nineties and up until 2007, Park Group regularly earned over half its profits from this source. An extra half point on interest rates adds £0.25m to full year profits.

Park Group AIM	PKG Consumer Finance				Price p. Cap £m	34.00 56.1	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
March	£m	Profit £m	Profit £m	eps p.	ratio	p.	%
2009A	250.5	6.2	6.2	2.4	14.2	1.3	3.9
2010A	263.2	5.3	5.3	2.1	16.2	1.3	3.9
2011E	303.7	12.0	6.5	2.8	12.1	1.5	4.4
2012E	335.2	6.9	6.9	3.0	11.3	1.6	4.7

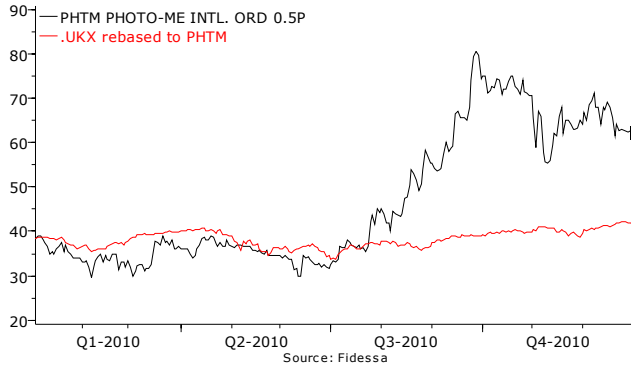
**PEGG CAPITAL AG**



Investment group, PEGG Capital, has announced that it has signed a Letter of Intent for a US\$5m investment from a US private equity firm. The investment is subject to successful completion of due diligence. The private equity firm is also understood to be participating in the funding of a US\$100m “Asia Brand-Tech Fund” which will be managed by PEGG’s partner, Gramercy Private Equity. The fund will have a particular emphasis on the emerging China economy. PEGG Capital, which is domiciled in the Isle of Man and listed on the Frankfurt Stock Exchange, plans to list in the US, most likely on the Nasdaq exchange.

PEGG Capital AG						Price €	0.54
Frankfurt Stock Exchange						Cap €m	9.7
	Equity Investment instruments						
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	£m	Profit £m	Profit £m	eps p.	ratio	€	%
2008A	-	-	-	-	-	-	-
2009A	-	-	-	-	-	-	-
2010E	No	estimates					
2011E	No	estimates					

**PHOTO-ME INTERNATIONAL**



The Interim Results issued in December showed strong growth in margins and the higher profit predicted in the company's earlier Trading Update. Interestingly, all the growth came from the core Operations Division. The Sales & Servicing Division, which is generating huge excitement in the London investment community because of the large forward orders for the new Pocketbook and Photobook Builder, actually went slightly backwards during the half.

Adjusted profits were up 25%. The group EBITDA, which we prefer as a measure of progress at this company, was up more modestly, at 5.6%. The

interim dividend was quadrupled.

We were impressed by the £29.4m of net cash in the company, up from £8.1m at the April year-end. This was ahead of our forecast of 'may be as high as £25m', and achieved in spite of a doubling of capital expenditure to £10m during the half. We watch with interest now to see what Photo-Me does with its rapidly accumulating cash pile. The new designer photobooth, joint functionality in booths with a pocketbook/photobooth unit, a 3D photobooth, this and many other projects are sparking the interest of the development team at Grenoble. For the near term, however, there is quite enough activity with orders for 1,300 Pocketbook machines from Mitsubishi and one other major customer, and the prospect for many more, to keep interest in this division at a high level. We have never known a time when the new product pipeline was so promising.

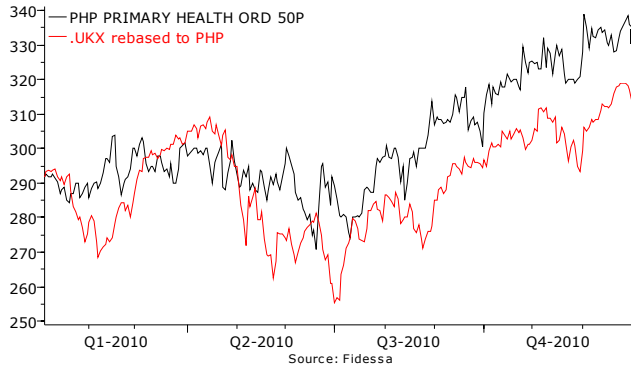
For the core Operations Division, earnings from the booths are to a large extent in foreign currency, and the Euro, the key currency for Photo-Me, has recently been weakening slightly against the Pound Sterling. Because of this, we have kept our forecast unchanged in spite of the good news coming from the company.

One final encouraging point, the French Government appears to be backtracking upon its attempt to impose the obligation on Town Halls to take the ID photos for passports. A new regulation passed in mid-December under the framework of the Internal Security Bill Loppsi 2 "bans all new installations of ID cameras in Town Halls and will eventually lead, by a decree (yet to come), of the removal of all cameras still installed in Town Halls", according to an API communiqué. We had previously viewed this as a significant potential threat to Photo-Me's earning power (see past research notes). This threat has now been removed.

Please email or call for a copy of our December 9 research note.

Photo-Me				PHTM		Price p.	63.50
Full List				Support Services		Cap £m	229.2
Y/E	Sales	EBITDA	Adjusted	Adjusted	p/e	Divi	Yield
April	£m	£m	Profit £m	eps p.	ratio	p.	%
2009A	210.5	38.6	1.6	0.2	-	-	-
2010A	222.5	44.2	14.0	2.7	23.5	1.3	2.0
2011A	224.5	46.7	16.9	3.3	19.2	1.5	2.4
2012E	231.1	47.4	18.6	3.6	17.6	1.75	2.8

**PRIMARY HEALTH PROPERTIES**



The last month has been all about sector news as far as Primary Health Properties is concerned. MedicX Fund reported figures in December that confirmed the basic health of this sector of the property market. The two key elements in the MedicX announcement affecting Primary Health Properties were on market valuation yields and on rental growth.

As far as market valuation yields are concerned, PHP took the very interesting step in its Interim Statement, of assuming a slightly reduction, which has the consequence of increasing the value of the properties. In its latest statement, the valuation

basis used by MedicX's outside valuers was unchanged. The difference in rates being used by the two companies is so very small it might almost be dismissed as trivial. Even so, it is worth noting, and suggests to us that a further reduction in the yield basis when Primary Health Properties reports its y/e Dec 2010 results is unlikely.

The second point is that the MedicX results failed to support the very rapid rise in rent reviews shown by Assura Group a few weeks earlier. We are not surprised by this. Assura's property mix is slightly different to that of MedicX (and PHP). It includes a greater number of pharmacies, and indeed some other non-GP rental units, which fall outside the scope of negotiations with Primary Care Trusts. Assura clearly did well on getting some decent rental increases through on these. Assura also had a number of new properties joining its portfolio, giving an immediate uplift.

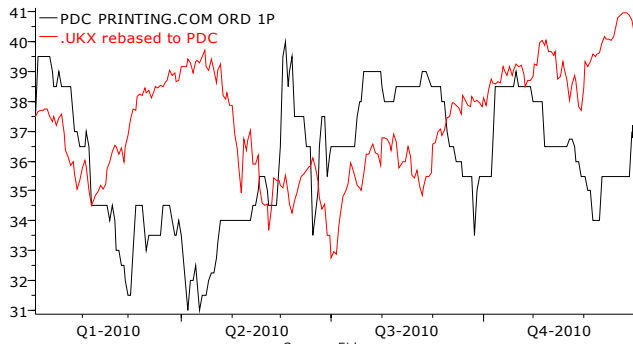
The development for PHP over the past two months, however, has been the rise in ten year interest rates. This is giving the yield curve a more normal look after two years where with each succeeding month it was looking increasingly distorted. PHP has interest rate swaps in place that were giving it an increasing 'mark to market' liability. This in turn was affecting its break-up net asset value. This change in interest rates has reversed this trend, and is good news for the company.

So far, the proposed reorganisation of the National Health Service is turning out to be something of a damp squib.

Primary Health Property				PHTM	Price p.	332.00	
Full List				Real Estate	Cap £m	207.8	
Y/E	Revenue	NAV/share	Adjusted	Adjusted	p/e	Divi	Yield
December	£m	p. EPRA	Profit £m	eps* p.	ratio	p.	%
2008A	19.7	316.0	4.6	14.0	23.7	15.91	4.8
2009A	21.3	280.0	7.3	18.4	18.0	17.25	5.2
2010E	26.2	304.0	10.3	16.5	20.1	17.50	5.3
2011E	29.0	304.0	11.4	18.2	18.2	18.00	5.4

\*ex rights adjusted

**PRINTING.COM**



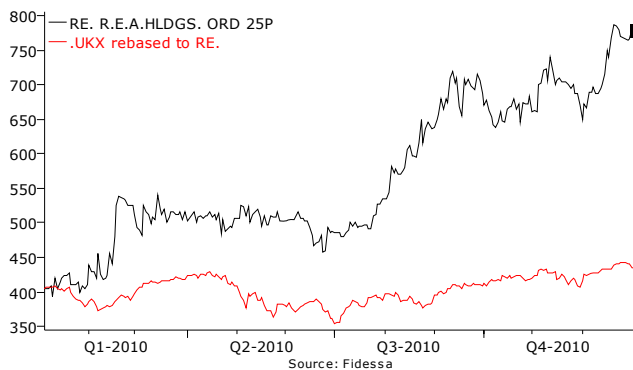
The Printing.com share price has drifted sideways since November's interim results and acquisition announcement. In our view, the acquisition of Dutch online promotional print company Media Facility Group (MFG) has the potential to transform the company, as does the new online template solution aimed at large corporations. However, extra costs will have to be absorbed in H2, mainly related to the integration and because of this the impact on the bottom line will not be felt until FY 2012.

Printing.com has a March year end and in the past has updated the market with a pre-close trading statement in late January/early February.

Printing.com				PDC	Price p.		37.0
AIM				Retailing	Cap £m		17.4
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
March	£m	Profit £m	Profit £m	eps p.	ratio	p.	%
2009A	14.5	2.1	2.1	3.3	11.2	5.15*	13.9
2010A	14.5	1.7	1.7	2.9	12.8	3.15	8.5
2011E	16.9	1.3	1.5	2.4	15.4	3.15	8.5
2012E	22.6	2.3	2.5	3.9	9.5	3.15	8.5

\*2009A Dividend includes a special dividend of 2p/share

**R.E.A. HOLDINGS**



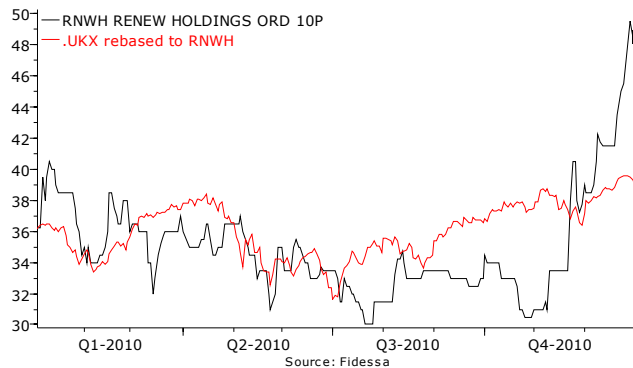
2010 has been a very good year for the UK quoted palm oil sector. A 60% rise in the palm oil price since the start of the year has produced some spectacular share price gains - shares in R.E.A. Holdings, Anglo Eastern Plantations (AEP.L) and New Britain Palm Oil (NBPO.L) are all double their level a year ago while shares in Asian Plantations (PALM.L) a Malaysian palm oil company that we initiated coverage on last month have risen 160%. MP Evans shares have underperformed the rest of the UK quoted palm oil sector but have still risen a very respectable 54% on a twelve month basis.

Industry forecasters Oil World predict tight supply, in part due to poor weather conditions in Malaysia, will continue to be an issue for the palm oil industry in 2011. What remains uncertain is how long the current price of \$1240m/t is sustainable for, and how the higher CPO price will impact upon continuing strong demand, particularly from China and India.

R.E.A has declared a second interim dividend, in lieu of final, of 2.5p per share for the year to end 31 December 2010. This takes the total dividend for the year to 5p/share, slightly below our 6p/share forecast.

R.E.A. Holdings				RE.	Price p.		782.5
Full List				Agriculture	Cap £m		254.3
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	USDm	Profit USDm	Profit USDm	eps c/share	ratio	P.	%
2008A	79.6	36.3	39.0	86.1	14.1	3.0	0.4
2009A	78.9	41.7	31.9	55.3	21.9	4.0	0.5
2010E	107.7	54.0	49.0	92.8	13.1	6.0	0.8
2011E	136.3	67.3	62.3	114.4	10.6	9.0	1.2

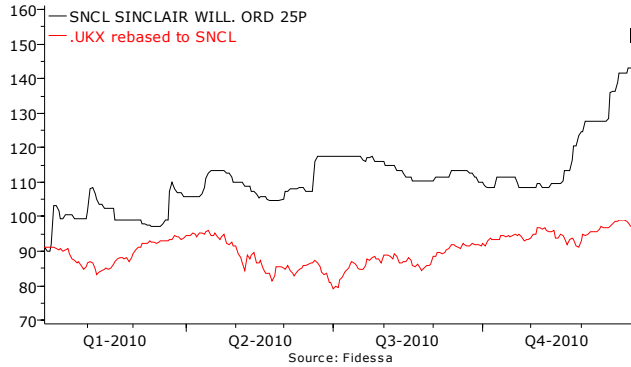
**RENEW HOLDINGS**



Seymour Limited, Renew's operating subsidiary in the water sector, has been appointed as an AMP5 framework contractor by Northumbrian Water Limited ("NWL"). The new agreement comes into effect from 1 April 2011 and lasts for up to 10 years. The programme of work covers technical and commercial services, infrastructure and non-infrastructure construction, design and construction and sewerage maintenance. It provides the opportunity for the 19 firms appointed under the agreement to win work to a total value of £1.5 billion. The appointment builds on Seymour's long term relationship with NWL.

Renew Holdings				RNWH		Price p.	48.5
AIM				Construction		Cap £m	29.1
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
September	£m	Profit £m	Profit £m	eps p.	ratio	p.	%
<b>2009A</b>	316.6	1.2	5.5	6.0	8.1	3.0	6.2
<b>2010A</b>	209.4	4.0	4.6	5.3	9.2	3.0	6.2
<b>2011E</b>	306.0	5.1	5.3	7.1	6.8	3.0	6.2
<b>2012E</b>	323.0	5.8	5.8	7.8	6.2	3.0	6.2

**SINCLAIR, WILLIAM**



Full year results announced on January 5 showed adjusted pre-tax profits of £2.52m, precisely on our forecast, adjusted eps of 12.6p, compared to our forecast of 10.2p, and a dividend total for the year of 5p per share. We had forecast 4.5p. Net debt was eliminated. The balance sheet showed net cash of £1.8m.

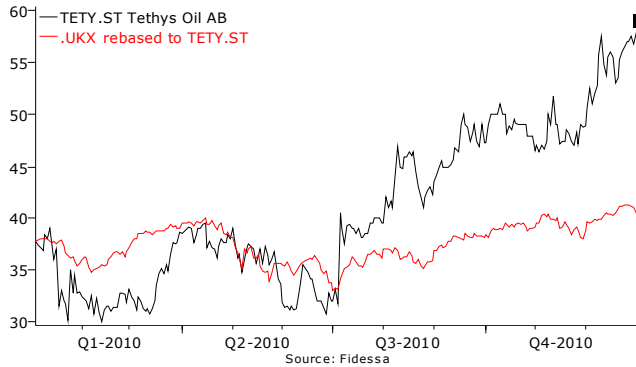
We leave our pre-tax profit forecast for the new current year unchanged for the moment, but increase our eps forecast because the current year tax charge will be lower than we expected. Clearly this company is moving ahead strongly and has the potential to surprise further on the upside. We find

it particularly encouraging that Sinclair has got its innovative new peat drying business up and running more quickly than we expected, and that only six months after starting up the first production line for its artificial peat replacement, *SuperFyba*, it is already talking about plans for starting up a second production line 'in the current financial year'. Demand for *SuperFyba* from the first plant is consistently exceeding supply.

Sinclair shares have risen by 28% since we issued our Initiation of Coverage note in November. We remain great fans of this company.

Sinclair, William				SNCL	Price p.	143.0	
AIM				Household Goods	Cap £m	23.6	
Y/E	Group Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
September	£m	Profit £m	Profit £m	eps p.	ratio	p.	%
2009A	46.3	1.2	1.2	6.8	21.0	3.5	2.4
2010A	48.5	2.1	2.5	12.2	11.7	5.0	3.5
2011E	56.0	3.0	3.0	13.4	10.7	6.0	4.2
2012E	Estimates	Under	Revision				

**TETHYS OIL**



No new operational updates this month from Tethys over the holiday period but, looking to the wider market, commodities have been resurgent. All in all, this should impact positively on the market valuations of near-term producers like Tethys, meshing with their plans for field development during the coming year.

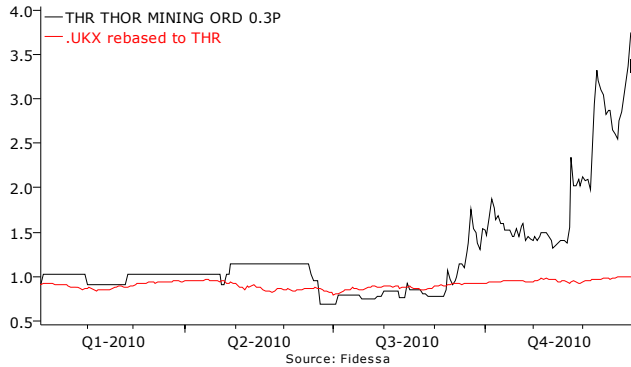
Indeed, oil whilst wavering a bit hovers near to the highest prices seen for more than two years. Front month U.S. WTI crude for February delivery has hit a 27-month peak of \$92.58, the highest intraday price since early October 2008 with ICE Brent also broaching \$96 for the first time since 2008. The

recent rise is generally being accredited to accelerating manufacturing activity in the developed economies and to expectations that U.S. crude inventories will continue to slim down, albeit if driven by the unusually cold weather rather than fundamental demand.

Sentiment has turned decidedly bullish with an increasingly optimistic consensus for 2011 economic performance. We expect to see \$100/barrel oil making the news in the weeks to come.

Tethys Oil				TETYS.E	Price SEK.	59.5	
Stockholm				Oil	Cap MSEK	1933.8	
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
December	SEK m	SEK m	SEK m	eps SEK	ratio	SEK.	%
2007A	-	-24.7	-24.7	-1.41	-	-	-
2008A	-	-16.4	-16.4	-0.72	-	-	-
2009E	-	-43.6	-43.6	-1.62	-	-	-
2010E	No	estimates					

**THOR MINING**



Thor is currently being held up in the permitting process for its first shallow drill program on the Dundas gold project. The company reports that the process is almost complete with most of the time consuming portions done, and it expects to mobilise drill teams early in the New Year.

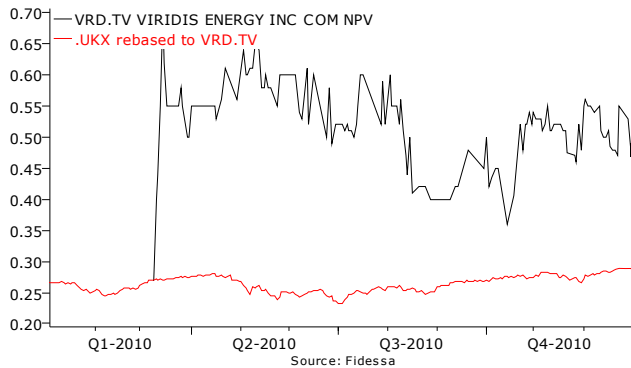
December saw strong movement for Thor with its price rising from 2p to 3.6p on top of record trade volumes in November which saw the share price rise from around 0.7p/sh. Astute traders could therefore have realised >400% return over two months. Other junior miners and explorers that show similar traces over the same period come

from a variety of commodity sectors and are at a variety of stages in development, so it is difficult to attribute Thor's rise to any one factor. Continuing gold price strength, the rise of tungsten price to pre-crash levels and an attractive risk/reward profile with exploration backed by a permitted mine, all seem to be playing their part in Thor's re-rating. A brief inspection of private investor bulletin boards shows that the increased liquidity has attracted technical day traders with a limited knowledge of the company looking for high risk/high return plays. We must therefore conclude that at least some of the current price is 'hot money' that may exit as quickly as it arrived.

We believe that Thor is still good value and that the current rise is justified on fundamentals. It remains to be seen how much of the current market is short term speculative froth. The very strong performance of tungsten in the last three months, rising around 70% depending on the contract, has seen pre-crash levels exceeded for the first time. Logically molybdenum should follow, with a time lag, as production of steel picks up but Chinese policy shifts regarding tariffs and quotas and the visibility of strategic and critical minerals may be having their effect over and above variations in the supply/demand balance in the raw commodity. Though we are currently unaware of any ETF or similar asset-backed instrument provoking fresh demand in tungsten, the current fad for metal-backed tradeable paper has to concern those whose business depends on consuming any raw material whose supply is already tight and we wonder what would happen should 'a JP Morgan' appear to take a globally dominant position in tungsten or moly, as they are thought to have recently in LME copper. Copper is not identified by any government as strategic or critical. Both tungsten and moly are identified as such by at least one large economic power, but none of these powers has laid out the consequences involved in disturbing free trade in the minerals that they identify as critical or strategic. The REE/China story is the closest analogy that we have, but a natural monopoly due to geology (and a certain degree of negligence with regard to processing technology transfer) is not the same as a market manipulation is it?

Thor Mining				THR		Price p.	3.3
AIM				Mining		Cap £m	8.0
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
June	£m	Profit £m	Profit £m	eps p.	Ratio	p.	%
2008A	0.0	-1.1	-1.1	-0.8	-	-	-
2009A	0.0	-1.23	-1.1	-0.6	-	-	-
2010E	0.0	-1.76	-0.6	-0.2	-	-	-
2011E	No	Estimates					

**VIRIDIS ENERGY**



Q3 results were slightly below our expectations in terms of sales, above our expectations in gross margins, and showed a slightly higher seasonal loss than we expected. All in all, we were satisfied with the results. They showed that the concept of putting together small private wood pellet producers to create a larger unit can create interesting economies. They also show that continued growth in demand is soaking up the overcapacity in the industry that was seen after the flurry of new plantbuilding in 2009.

The acquisition of Monte Lake, which we had expected to be incorporated in October, has been delayed while negotiations take place concerning the debt within Monte Lake. Because of this we have changed our forecasts, and now assume the inclusion of Monte Lake from April 2011. This in turn will mean a delay to the start of the new plant building at Monte Lake, so forecasts further out are affected. We now expect another acquisition in the USA to complete before Monte Lake, so investors should be prepared for a possible further forecast change shortly.

A small (\$5m) capital raising is currently under way at 50c a share. Warrants are included in the offering, but are well 'out of the money', kicking in at 75c, so the terms of the fundraising appear fair to existing shareholders.

A share listing has been obtained on the Frankfurt Stock Exchange. This gives Viridis a European quote to back up its Toronto Venture listing. We await the transfer of Viridis Energy to the main Toronto market. A listing on London AIM is still possible if Viridis Energy decides to raise capital for expansion in the London institutional market. The raising of a significant amount of fresh capital in London (UK£10m - £20m) remains a strong possibility.

We published a follow-up research note on 21 December. Please email or call for a copy. We expect to produce a further research note shortly.

Viridis Energy Inc. is a Canadian company. It should not be confused with an Australian company with a similar name, or with the British AIM company Viridas; it has no connection whatsoever with either of these.

Viridis Energy				VRD.TV		Price CA.C.	48.00
TSX				Energy		Cap CA\$m	17.9
Y/E	Sales	Declared	Adjusted	Adjusted	p/e	Divi	Yield
June	£m	Profit \$m	Profit \$m	eps \$.	Ratio	c.	%
<b>2009A</b>	0	-	-	-	-	-	-
<b>2010A</b>	7.8	-0.1	-2.9	-14.1	0.0	-	-
<b>2011E*</b>	14.0	-2.5	-2.5	-4.8	0.0	-	-
<b>2012E</b>	31.4	-0.1	-0.1	-0.2	0.0	-	-

\*Assumes additional capital raising in Jan 2011

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