HYBRIDAN *Small Cap Wrap*

This week: A business that turns cash point machines into advertising space, a group that's really got the power, lots of gold-diggers and sun, sand, sea and Cubus Lux.

Angus & Ross (AGU.L, 2.0 pence / £5.2m)

Consolidation usually brings economies of scale especially for mining companies operating in remote locations. Angus & Ross has now added another asset to their Greenland portfolio with the acquisition of the assets of Crew Gold's Nalunaq gold mine in south-eastern Greenland. Crew had produced more than 300,000 ounces of gold over a four year period before placing the mine on care and maintenance. Angus & Ross paid a total consideration of $1.5 million for the assets which include mining and exploration licenses, mining equipment, a fully operational mine camp and ship loading harbour facilities. A fully paid environmental bond worth nearly $3 million is included. By adopting a different mining method employing predominantly local labour and by producing a concentrate on site, the company believes it can operate the mine profitably.

Angus & Ross estimates that it can achieve cash costs of $600 per ounce initially and lower thereafter as soon as it has constructed a process mill and gold plant on site which will eliminate the costs of shipping and externally processing the concentrate. Based on preliminary mine plans the company expects to produce a further 350,000 ounces of gold during a remaining 10 year mine life. Initial capital expenditure is expected to be $8 million and is likely to be financed by a combination of a gold loan and an equity placing.

The company's major asset is the Black Angel zinc-lead property in western Greenland which is planned to go into production in 2010.

Ark Therapeutics Group plc (AKT.L, 45.4 pence / £94.2m)

The specialist healthcare group announced on 24th June that it has made a major advance in its production technology and processes for commercial manufacture of adenoviral gene-based medicines. The new process has resulted in a very high quality finished product with improved yields of up to 100 times those achieved by more conventional processes, making Ark something of a gene genie. Ark is a company with exciting times ahead and one to watch, we believe that this new facility will give it enhanced production capacity and is further proof that the company is in the commercialisation phase.

Separately, Ark also announced over the past week that it has signed an agreement with the private Finnish biotechnology company, Oy Lx Therapies Ltd to produce Vascular Endothelial Growth Factor C in an Adenoviral Vector (Ad VEGF-C). It is great that Ark can maximize its manufacturing capabilities, IP and regulatory expertise, in this specialized area which we believe they have a lead on globally, by signing up with other companies that need to tap into its expertise and we imagine that there could be more similar deals to come. Ark has five marketed devices in its Wound care division and three pharmaceutical products in late stage clinical development: Cerepro, Vitor, and Trinam. We like this company as it has a completely novel mix of incredibly high class and innovative R&D and products that are being sold. It should appeal to investors as it moves into a commercial, revenue generating phase.

Ceres Power Holdings (CWR.L, 197.5 pence / £132.1m)

Ceres confirmed receipt of a £2m payment from British Gas for the successful design, build and testing of a number of 1kW grid-connected Combined Heat and Power products. The Company expects to end its financial year on 30th June 2009 with cash of at least £22m. Ceres Power will now move into the next phase of development with British Gas. It also has relationships with Calor and EDF and would appear to be on target to be one of the fuel cell winners as it heads towards making this area of renewable energy a reality.

Correrо (CORO.L, 2.6 pence / £1.2m)

Correro, the struggling software company, announced that its proposals to reschedule its convertible loan notes and a capital reorganisation were approved by shareholders at an EGM. Correro has in issue £4m of convertible loans issued to fund previous acquisitions. The loan notes were due for redemption in 2011 if not previously converted into shares at 25p, but with the current share price of 2.6p, conversion is a remote possibility. The loan notes bore a coupon of 8 per cent but this interest charge of £320,000 per year was clearly unsustainable against the last reported trading profit of £272,000. To address these issues the loan notes have been extended to 2015, the interest effectively halved over the next three years (and made up in the later three years) and the conversion price adjusted down to 8p. Doubtless these developments are positive for Correro in the short term but the company has previous history here as it rescheduled its loan notes once before in 2004. It is hard to believe there will ever be any value for the equity holders of Correro and maybe the time, energy and expense of any further rescheduling could be saved now by an orderly disposal of Correro's business. Corre-to-go perhaps?

Cubus Lux (CBX.L, 19.0 pence / £3.4m)*

Cubus Lux, the Croatia-focused leisure resort operator and developer, announced that it has raised £212,000 by a placing of shares at 20p. Cubus Lux will use the proceeds of the placing for general working capital purposes and particularly to meet the expenses of its development of the 5* Olive Island Hotel and Apartment resort in Croatia. This flagship project promises significant value creation for the group once bank finance can be secured to commence construction. The management is confident it can secure the finance and given the Executive Chairman's background in banking we believe this claim is credible.

CustomVis (CUS.L, 1.7 pence / £2.9m)

The leading developer, manufacturer and distributor of solid state laser systems for the refractive surgical industry has announced that it has signed a contract for a further cash sale of its Pulzar Z1 laser. This latest cash contract is in France, following a recent win in Iraq. The company expects revenue for the year to 30 June 2009 to be slightly higher than the market expectation of £1.7m, which is great news in what must be a tough climate for expensive capital equipment. Indeed, the group seems to have set lasers to stun.

Encore Oil (EO.L, 16.3 pence / £50m)

The show will never end if Encore is halfway successful in balancing the risk and opportunities of its large portfolio of prospects. In a recent update on its activities, we learned that gas is now expected from the Ceres field in Q4 2009. Encore holds a 10 per cent interest although half of that may be bought back by the previous owner. First gas sales could also be achieved from the 20 per cent interest in Kirkleatham gas discovery, which was made in late 2009 and which is pending planning permission. Q4 will likely also see drilling for oil at the onshore Markwells Wood property as well as the drilling of an appraisal well at the Cladhan light oil discovery. In 2010 we can expect to see drilling of a test well at Catcher and at the Bennett gas prospect, another appraisal well at the Cobra discovery and at the Biscathorpe structure. The company also announced that the sale of its 15 per cent equity in the Breagh gas discovery is imminent. With near-term revenue opportunities, proceeds from asset sales and a reasonably healthy balance sheet, the company is well placed to succeed with the pragmatic management of its E&P portfolio – so the fat lady ain't singing just yet.

Herencia Resources (HER.L, 0.5 pence / £3.0m)

Shareholders of Herencia, the junior exploration company who is developing the Paguanta zinc-lead-silver project in northern Chile, now have one frustration less. The company's major shareholder with a 46 per cent holding has been in administration and there has been a worry about the potential overhang. This week it was announced that Cape Lambert Iron Ore of Australia has acquired the assets of CopperCo including its shareholding in Herencia. Whilst Cape Lambert may not decide to hold on to this investment in the future, the risk of a forced sale at a depressed price has been successfully avoided. Deteriorating commodity prices and questions regarding the strength of the Chinese economy are two other frustrations that may be on the vane for Herencia's shareholders. During 2008 the company's extensive work resulted in an upgrade of the mineral resource, a completed scoping study and confirmation of high ore grades at depth. It is now important for management to further test the potential and move the project forward towards a feasibility study. This will require more capital, but with improved sentiment for mining shares, investors should pay attention to this promising project.

i-Design (IDG.L, 13.5 pence / £1.9m)

Listed in July 2007, one month before the credit crunch started to bite; i-Design has not exactly had it easy. But then a cocktail of a banking crisis and a recession is unlikely to make a business that sells advertising space on bank ATM machines flavour of the month. Look beyond the current economic malaise, however, and i-Design has a very interesting business model. Quite simply, the group's technology, atmAd, allows banks to use their cash point machines to advertise their own services and, if desired, display advertisements from third parties. In the latter case, i-Design sells the ad space and shares revenues with the bank that owns the ATM. This arrangement lets banks make incremental sales at relatively low cost. Furthermore, ATM ads have key attractions for advertisers. First off, outdoor advertising is well-placed to reach a mainstream audience in an era of fragmenting media channels. Second, ATM advertising is highly measurable (as banks know how many people use their machines) and the audience is captive. Even so, two contracts with banks, which were expected to have been signed in the 2009 financial year, have been shelved for the time being, due to the credit crunch. Consequently, i-Design expects to make a £1.2m loss for the full year. First-half pre-tax losses widened from £0.29m to £0.37m, despite a 46 per cent rise in revenues, to £1.4m, driven by a 72 per cent increase in media sales. Clearly, the group would benefit from an improvement in the economic climate, but it does have a cool £1.9m of net cash, which should help it ride out the storm for some time yet. Oh, and one final point of interest to advertisers: viewers of i-Design's ads are almost always flush with ready cash.

ImmuPharma PLC (IMM.L, 88.5 pence / £68.6m)

The specialist drug discovery and development company announced its preliminary results for the year ended 31 December 2008 on June 24th. Key Highlights were that in the period its lead candidate for the treatment of Lupus, Lupuzor, was licensed to Cephalon Inc in a transaction worth up to $500m in milestone payments in addition to significant royalties. Good data for the Phase IIb study of Lupuzor and for its cancer compound IPP-204106 were demonstrated in the period. The company is in a strong cash position due to the Cephalon deal, share placings and grants awarded and has indeed become one of British biotech's success stories. At the year end, Immupharma had cash of £12.5m and in February 2009, Cephalon exercised its option to license Lupuzor for a payment of $30m in cash, thereby further strengthening the Group's cash position. ImmuPharma's share price has been on a good upward trend for the past 3 months and financially this company is in great shape.

Lighthouse (LGT.L, 11.5 pence / £14.7m)

Lighthouse, the UK's largest independent IFA, announced its own capital reorganisation to permit it to pay dividends in the future. Lighthouse's position is one of strength notwithstanding the maelstrom surrounding other financial stocks. Lighthouse has reported it is increasing revenues, is EBITDA positive and has a bullet proof balance sheet of no debt and £12m cash as against a market cap of £15m. No doubt this financial strength will be used to attract the best IFA's on the market and for selective acquisitions. Lighthouse is clearly a shining beacon in a storm.

In last week's *Small Cap Wrap*, we discussed **Lipoxen (LPX, 13.8 pence / £21.2m).** This last week, is has had another great piece of news out on its co-delivery DNA vaccine patent which has been granted in the EU and US. We imagine that this will further add to Lipoxen's ability to sign deals with partners.

Minster Pharmaceuticals (MPM.L, 6.1 pence / £3.6m)

If you are a drug company specialising in neurological and psychiatric disorders, and you have a problem, do you see a psychologist or a psychiatrist? Minster has opted for the consultative route by hiring Dr Rajinder Kumar, a renowned specialist in the commercialisation of CNS products. Dr Kumar, who was Global head of Clinical Psychiatry at GlaxoSmithKline and led the development of the $2 billion anti-depressant drug Paxil, is now engaged to assist Minster in formulating the development and commercialisation strategies for tonabersat and sabcomeline. Luckily, Dr Kumar will not have to charge for the time it would take to get to know these two clinical-stage compounds, as he was involved in their early development at SmithKline Beecham prior to their sale to Minster. After a very promising Phase II trial of tonabersat in migraine with aura, the expectations were high that the Phase IIb TEMPUS study of tonabersat in migraine prevention would also be successful. Whilst the study confirmed tonabersat's high safety profile, unfortunately it did not meet the primary endpoint. The testing of neurological drugs is fraught with complications surrounding the placebo effect, patient compliance and retention and the measurement of pain. So what if the trial was poorly designed and the compound does actually work? Research on tonabersat's novel mechanism of action has suggested that the compound could be clinically effective in epilepsy and neuropathic pain, and this is where Dr Kumar's expertise will be welcomed.

Minster claims to have enough cash to continue current operations for two years, but we would expect an announcement of the development strategy in the next 3-4 months. It is well worth sitting in the chair for that.

Research Now (RNOW.L, 335.0 pence / £62.7m)

Research Now, which provides panel data to market research companies, says it has seen 'pricing pressure' during the recession, but its growth story continues apace. Results for the six months to 30 April 2009 saw revenue up 24 per cent, to £23.6m, operating profit up 46 per cent, to £4m, and adjusted diluted EPS up 56 per cent, to 14.5p. This bears out the group's oft-repeated mantra that its online collection methods let it obtain data 'faster, cheaper, better' than offline, a key advantage over rivals that use the more traditional techniques. The group has a presence in Europe, North America and Asia and management estimates that 50 per cent of US survey research is now done online, compared to just 20 per cent in Europe and Asia. This suggests scope for continued expansion in these regions. Impressively, 92 per cent of first-half sales came from business with existing customers, suggesting a relatively high level of client satisfaction. But the recent takeover of Greenfield, by rival panel data supplier ToLuna, means the group now faces a larger specialist rival. Despite this, Research Now is targeting further geographical expansion and is supported by a healthy net cash position of £6m. In addition, it is seeing gross margin gains due to an increase in supplying own-panel data rather than making use of data from third parties. As such the group is well-placed to continue to grow, despite the uncertain economic outlook, and could yet secure a 'data with destiny'.

Sarantel Group (SLG.L, 2.5 pence / £4.8m)

Another week, another contract win. Sarantel has secured a contract with Harris Corporation to supply the LBS Pro GPS Antenna for their Unity XG-100 Multiband Public Safety Radio. This is a high end radio that covers four frequency bands with embedded secure Bluetooth technology and internal GPS and is designed to provide reliable and secure public safety communications for the emergency services. This proves again that when there is no room to compromise on quality, reliability and performance. Sarantel's robust design combined with small size and high accuracy is the perfect, if not the only, solution. With this contract, Sarantel is getting even closer to reaching breakeven in 2010.

Serabi Mining (SRB.L, 1.3 pence / £1.8m)

Serabi is not taking a shine to the difficult credit markets. Sitting on an extensive exploration portfolio and a small gold mining operation in northern Brazil, the company is in need of more capital to execute on its strategy of developing further mines in the region. Without access to capital the company is unable to fully utilise its current assets and further prove the potential of the many exciting opportunities within its extensive land position. The company has just embarked on a road show to drum up interest from potential investors. Should investors fail to see the potential the company is likely to be bought out or have its assets auctioned off to another mining company looking for an entry or expansion into Brazil.

Sigma Capital (SGM.L, 12.0 pence / £5.6m)

Sigma Capital, the specialist asset management and advisory group, announced the acquisition of commercial offices in Cardiff let to the Environment Agency, the UK government Agency. Sigma has a focused investment strategy of targeting investment property and companies developing technologies relating to clean energy and energy efficiency. With net assets per share of 16p (which included 11p before the Cardiff acquisition) we see opportunities in the depressed property market as offering good downside protection with significant upside from the clean energy division, Frontier IP, which is to be PLUS listed. As such, Sigma looks clean, green and well worth getting to know.

Solomon Gold (SOLG.L, 9.0 pence / £4.0m)

More people are wising up to the golden opportunities at the company’s potential giant copper-gold prospect at Guadalcanal, the joint venture with Newmont Ventures. We reported last week that the company had raised £800,000 in a placing. This week the company has raised another £600,000 to fund work on its properties in the highly prospective southwest Pacific rim of fire, a region known for very large copper-gold porphyry deposits.

Upstream Marketing and Communications Inc (UPS.L, 1.1 pence / £1.4m) *

The Asia-Pacific-wide marketing and corporate communications company has announced its audited results for the year ended 31 December 2008 this week. Its revenue is up 33 per cent to US$6.158m (2007: US$4.613m) and it reversed the previous year's loss-making performance by controlling costs with a profit of US$ 0.433m (2007: loss 0.643m). 2008 was a good year for Upstream, with high international interest in communications in China resulting from the 2008 Summer Olympics in Beijing. A recent trading update flagged that the sales pipeline would slow a little in 2009, but steps are being taken to mitigate this with a scaling back of the cost base and by increasing the marketing efforts with a view to supporting revenue generation. We believe that with its mix of sectoral expertise and geographies, Upstream should be on the up again soon.

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