FOUR SQUARE research

STARVEST plc

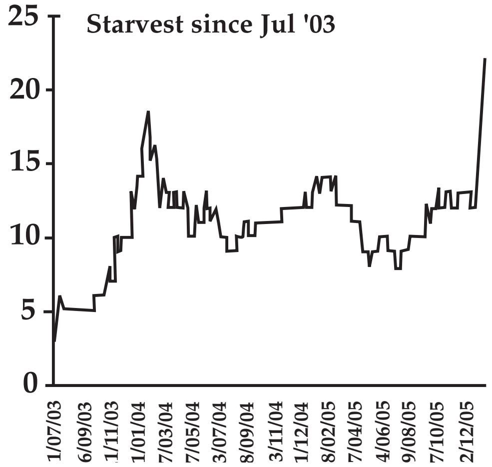
Behind the Asset Rise

Starvest has commissioned us to write this report to explain the main factors behind its recently announced results for the six months to end January 2006

It is pleasing to see Starvest's shares - at last - reflecting the rise in the value of its investment portfolio, which we forecast in our note of Oct 5 2005 was likely. Unrealised investment profit has risen over the last six months from £4.9m to £14.4m. In addition, £203,000 was realised from holdings which cost Starvest only £5,000.

Starvest still owns around 15m Afplats shares and warrants. Even though its shares have appreciated 58% in the last quarter, we estimate the Afplats holding now only accounts for 27% of Starvest against 40% in October - its other investments having appreciated even more.

The (mid-market) value of Starvest's investment portfolio is now c£17m compared with £6.5m at end July 2005. About £700,000 of this is new investments (at cost) made during the period, whereas £198,000 of the July unrealised profit has crystallised, so that the true comparison is about £16.4m v £6.3m.



As shown in the balance sheet overleaf, Starvest's net fully diluted assets per share (based on mid-market values of its portfolio) are now 39.1p.

As explained overleaf, we think a 30% discount on Starvest's net assets/share would represent a fair value for the shares - but with no regard for its phenomenal track record in growing its assets. Investors might conclude from the prospects we describe later for some of its 'Star' investments, that this performance looks likely to continue - warranting a 'premium' to this 'discount' albeit that some of its investments may prove to be a bit volatile in the coming months.

EPIC code	**SVE**
Listing	**AIM**
Sector	**Other financial**
No. shares in issue	**37.22m**
(fully diluted)	**(42.79m)**
Market Value	**£7.63**
Latest price (p)	**20.5**
NAV/share (f/d)	**39.1**
Gearing/cash	**(£604,000) o'dft**
Broker	**Keith Bayley Rogers**
Website	**www.starvest.co.uk**
Analyst/Author	**John Cornford**
of this document	**01243 814632**
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about - FOUR SQUARE

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The effect on Starvest's balance sheet and assets/share, of the last six months trading, and of movements in its portfolio, is shown below.

Consolidated Balance Sheets

	2003	2004	2005	2006
£	31-Jul	31-Jul	31-Jul	31-Jan
Fixed assets	250	-	-	-
Trading investments at cost	422,500	793,857	1,578,456	2,289,000
Debtors	12,050	22,727	50,538	227,000
(Trade etc creditors)	(42,510)	(28,277)	(123,782)	(777,000)
Cash	176,460	606,417	193,693	-
	-------------	-------------	-------------	-------------
Net assets	568,750	1,394,724	1,698,905	1,739,000
Representing:				
Ord share capital	276,324	372,173	372,173	372,173
Share Premium Account	1,352,581	2,026,396	2,026,396	2,026,396
Profit & Loss Account	(1,484,565)	(1,428,255)	(1,124,074)	(1,083,979)
Merger Reserve (Share Web Shop)	424,410	424,410	424,410	424,410
	-------------	-------------	-------------	-------------
Shareholders Funds	568,750	1,394,724	1,698,905	1,739,000
Unrealised investment gains	703,312	6,095,000	4,921,671	14,421,101
	-------------	-------------	-------------	-------------
Ordinary shares in issue	27,632,430	37,217,259	37,217,259	37,217,259
To be issued against warrants	2,100,000	2,600,000	5,575,000	5,575,000
Cash raised against warrant conversion	105,000	135,000	581,250	581,250
Underlying NTA per share (p)	4.6	20.1	17.8	43.4
Fully diluted NTA/share (p)	4.6	18.9	16.8	39.1

The £700,000 of new investment has used up Starvest's £194,000 cash at July 2005, resulting in a £604,000 overdraft. Having generated £203,000 in investment sales, £158,000 has gone in admin expenses, tax and interest. Along with its investment portfolio, Starvest now has a deficit of other assets amounting to £571,000

What discount is appropriate for Starvest's shares ?

It needs to be appreciated that much of the profit Starvest shows on its investments is a 'book' profit, which may or may not be able to be crystallised easily through the sale of the underlying investments. Valuation is at mid-market prices within what in many cases are very high bid-offer spreads, while over £9m (63%) of the valuation is for shares on OFEX as opposed to AIM. Assuming the 20% spread that is common on OFEX for the whole portfolio, the £17.1m portfolio valuation needs to be adjusted down by 10% to arrive at a bid-based value. Also, some values - especially on OFEX - are post IPO for shares whose price has not been tested by much trading volume.

These factors, along with a potential corporation tax liability on any realised profit, makes a discount of the shares on the apparent asset value understandable. We would have thought 25-30% would be the right figure for a 'trust' or investment company showing a fairly pedestrian performance - giving a current fair value for Starvest's shares of (say) 27p

The question is however, what discount is reasonable - given the strong track record of asset growth that Starvest has demonstrated ? Some 'premium' over and above the 'discount' would be entirely appropriate.

Even less dependent, now, on Afplats!

Continuing the trend we identified in October, and even though Afplats, as we hoped, has risen substantially, others of Starvest's investments are also proving to be stars.

While Afplats has contributed about £1.7m to the £10.1m increase in asset value over the six months, around £8.4m has come from five others of Starvest's 22-strong portfolio. Only two small investments in the rest of the portfolio are showing a loss - a mere £22,000 between them.

Afplats shares have risen by 58% over the three months since October. They and warrants now account for about 27% of Starvest's portfolio. Afplats shares have been strong in advance of the feasibility study which has been published as of early February, which will be used to produce a full 'bankable' feasibility study to prospect for the funds needed to turn its Western Bushveld Leeuwkop PGM/Gold (The four Platinum Group Metals plus Gold) prospect into a producing mine. Rand Merchant Bank has been appointed as an advisor, as have independent consultants to produce the required 'competent person's report'. These funds (estimated at R1.9bn - of which 30% is for the shaft sinking for which an experienced contractor has already been appointed to tender) will be larger than anything Afplats can afford, and it is expected that banks will lend the 'project' funding.

In addition to the Leeuwkop prospect are others owned by Afplats nearby which have also recently produced encouraging results and are not included in the resource estimates.

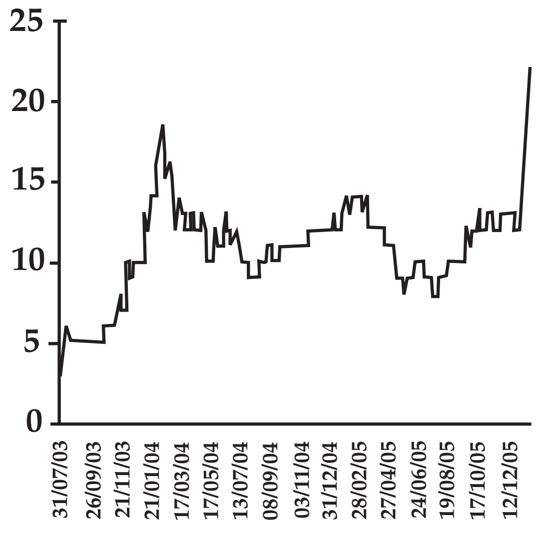
Afplats shares were also helped earlier by a November upgrade (by Snowden Consultants) to previous estimates of the resource at Leeuwkop, produced by further 3-D seismic surveys. These suggested an ore body, consistent over the planned project area, with no potential geological discontinuities to disrupt mechanised mining. This estimate - now further upgraded as at February 2006 to 69m oz - was for 53m oz recoverable PGM plus gold, of which 5m oz is 'measured'; 9m oz is 'indicated' and 39m oz is 'inferred'. The latter implies that confidence in its existence is at the lower end of the scale, but the overall picture is one which has allowed both 'proven' and 'probable' reserves to be used to assess whether the financial return against the required capital spending will satisfy the banks.

Overall also, the latest estimate is that 300,000 oz PGM per annum could be produced over at least a 25-year life, with a relatively low-cost mine configuration.

At the same time - although it has not confirmed it - Afplats is probably finalising its plan to list on AMEX, which should arouse broader interest among the more mining-aware American investors. California research house Dutton Associates has already written favourably, and suggested that the shares (even before Leeuwkop moves into production) were worth at least 60p compared with the current 31p.

Afplats now says that if all goes well it could raise the Leeuwkop funds before the end of this year - in which case a more solid value will be placed under Afplats' shares.

Afplats

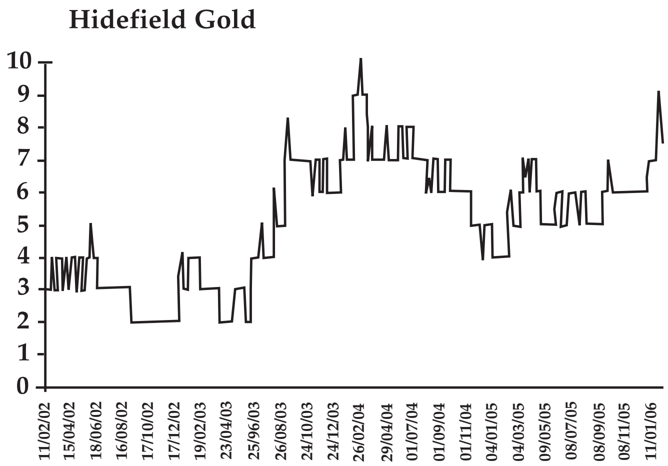


Hidefield Gold

Hidefield Gold (acquired late 2002 at 2p per share) has risen by some 80% to 9.125p since we wrote in October when it was already showing a c£250,000 profit. That profit is now £570,000 and accounts for 4% of Starvest's unrealised profits, and the holding 4.3% of its portfolio by value.

Good news started flowing soon after our October mention. First was the result of drilling 20 holes on the Golden Zone prospect (in Alaska in a 50% jv with Piper Capital which Hidefield is earning into) which better defined the shape of a gold resource previously estimated at 253,000 oz gold ('measured and indicated' - grading an average 2.8g/tonne gold) worth some £100m 'in the ground'. Piper Capital is listed in Toronto and Hidefield has a 15.6% stake.

Next was news that the Golden Zone joint venture had acquired a 6,680 hectare prospect at South Estelle, Alaska, close to other gold properties and containing 'extensive' gold anomalies. Finally, in late Jan 2006, Piper Capital announced encouraging assays from its Long Creek prospect, located within the Golden Zone property.



Regency Mines

Starvest, over a year up to August 2005, has accumulated a 21.4% stake in this AIM listed Australian mining prospector. Average price paid was 0.69p, against a current mid-quote of 1.875p and against a 5.5p price when Regency listed in early 2005. Starvest's unrealised profit is therefore some £306,000 (or 71% on its investment).

We described Regency Mines quite extensively in our October note. It holds a 62.6% stake (101.2m shares) in AIM listed Red Rock Resources - also an Australian prospector - which has announced various bits of interesting news recently although with little effect on its shares.

In October Red Rock acquired a portfolio of uranium and iron ore prospects in Australia's Northern Territories, concentrated in areas well established for uranium exploration and containing 'significant' gold and uranium targets. In December it added to this with the purchase of uranium prospects in Malawi.

The New Stars !

Concorde Oil & Gas

Most brilliant among these is Concorde Oil & Gas, into which Starvest invested around £100,000 for a 43% stake. Concorde's market cap (on OFEX) is now £14.7m !

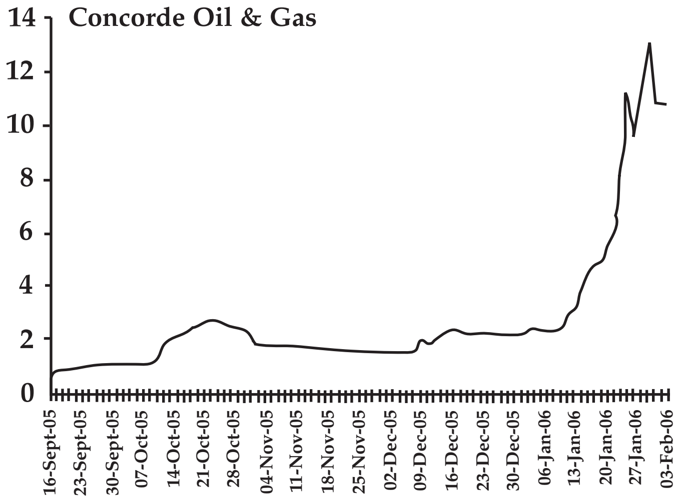
Concorde's September prospectus on coming to OFEX listed its aims as 'to identify and acquire oil and gas fields in the Russian Federation which could be quickly brought into production and so generate cash flow for the company'

It has a board with impressive experience in Russia, including in charge of exploration for Texaco and researching oilfields for Gazprom. A recently appointed non-exec is a former USSR Minister of Geology !

It was not long for the first deal to be announced. A Memorandum of Understanding was signed in December giving Concorde a right until March 1st 2006 to acquire a close-to-producing oil field in North-East Russia. The Luzskoye Field is owned by Pechora Energy and has an oil transport infrastructure close by. Rumours are that the field could contain 50mmbb, which would be very significant for a tiddler like Concorde.

That was followed by a £1m cash placing with institutions in January, to finance the necessary due-diligence enquiry into Pechora and into two neighbouring fields, and to commission a competent person's report - presumably as precursor to a larger cash raising (and a move to AIM) to complete the purchase. Concorde is also investigating other possible acquisitions in the Urals.

At present, there is little to help a guess at a price for Pechora. The Luzskoye Field is said to have a mixture of 'proven', 'probable', and 'possible' reserves which makes any outsiders' valuation difficult. The proximity to other producing fields nearby however, and to a rail/oil terminal, would make for a premium valuation. Even though we cannot estimate a price for Pechora, nor whatever dilution might result for existing shareholders in a fund raising, it seems to us this has the look of a share with considerable further potential.

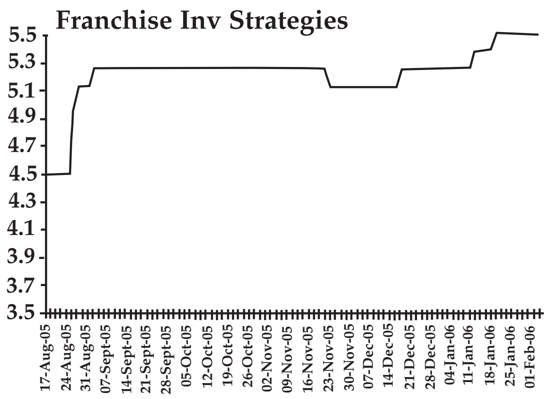


Franchise Investment Strategies

Although these shares - listed for only 5 months - are not far ahead (at 5.5p) of their 4p placing price, Starvest acquired its c.12.4m holding at such an advantageous price, pre-IPO, that it is currently showing a substantial £516,000 profit on a holding now valued at £680,000.

We described the company in our October note. (It was spun out of another Starvest investment - My Home International). Since then, there has been news of a successful £404,000 fund raising (at 4.25p) to re-charge the acquisition war-chest, of which £100,000 was used in August to acquire 50% of DTT Group Ltd. DTT floated on OFEX in December. DTT and is valued at £4m at its current 5p share mid-price (spread 4.5p-5.5p). FIS has therefore made a book profit of £1.9m on its investment, so that Starvest's 12.2% stake has theoretically appreciated by another £232,000.

FIS also has 625,000 shares in Myhome International, which at a current 26.5p is valued at £165,000.



Myhome International

We described this company in October, since when the shares have doubled, taking the value of Starvest's stake to £874,000 and its book profit to £834,000 (5.9% of the portfolio's total).

The shares have benefited from an encouraging trading update (before results for the year to September just ended - expected as we write) and from subsequent forecast profits upgrades and share tips. The trading update reported 33 new franchisees compared with a total of only 6 a year ago, all of whom, according to Myhome, are ahead of their budgets. It has also benefited from interest aroused at two recent franchise exhibitions - including one in Dublin which promises to expand the scope for its business beyond what was expected only recently.

Adding to this scope, and further helping near-term profits forecasts, was the December announcement of the acquisition of 56% of gardening services franchise, 'Nicenstripy'. Myhome is paying £255,000 by way of 1.41m Myhome shares at 18p, for a business which made £143,000 profit (we do not know on what basis) in the year to September 2005, with 25 franchise and 10,000 ultimate customers. It offers obvious synergies and cross-selling opportunities within the enlarged business.

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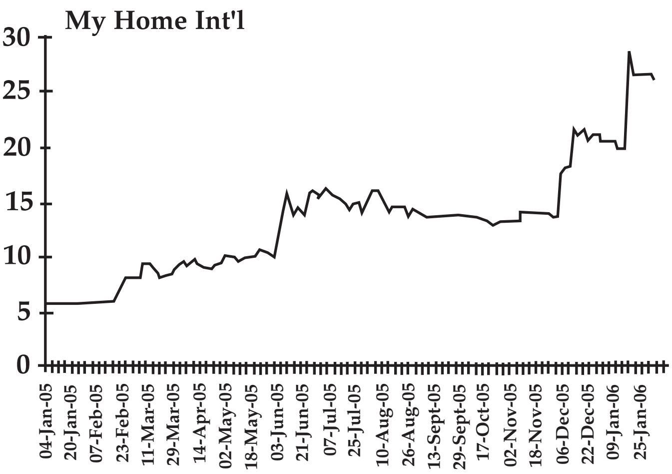

Caveat on FIS, Myhome, DTT

We do not disagree that there looks to be scope for Myhome to produce better (perhaps considerably better) than expected profits for the latest year.

However, some observers have been suggesting that there are a little too many related party transactions between these businesses, and that corporate governance issues which might cause concern on Aim, appear to be being overlooked on OFEX. In particular, the MyH directors have sizeable share stakes in FIS, which MyH itself then acquired, as also in DTT and Nicenstripy.

We have no comment or judgement to make on these issues. We trust that Bruce Rowan is well able to take care of Starvest's interests and will avoid any adverse effect that any developments on these fronts could have on either MyHome's or FIS's shares.

We point out that we were a little sceptical in our October note of the longer term profits forecast for MyHome produced by an outside independent (just as we are 'independent' !) research house. We limit ourselves to suggesting that investors confine their interests in these companies to Starvest's involvement, and do not follow the temptation to invest in them directly ! Our reason for caution stems from MyHome's business model in which the profits it makes from franchisees are front-end loaded, making for possibly spectacular initial profits but difficult-to-forecast progress thereafter.

A few other of Starvest's22-strong portfolio, which we either wrote about in October or have been too small to describe so far, are shown in the table below. One deserving mention does not yet appear in the portfolio, the shares concerned not yet having been issued and therefore being ascribed no value.

The Core Business plc,

A personal care and beauty products business sponsored by another of Starvest's investee companies, Addworth, plans a fund raising on AIM, prior to which Starvest has invested £60,000 for 4.2m shares. As has usually been the case so far, Starvest will probably show an immediate paper profit when The Core Business lists.

Effect on Asset Value of portfolio share price changes

To help investors, the table shows our estimate of the effect on Starvest's asset value per share, of a 1p or a 10% change in the share price of the most significant of its investments.

Starvest		**Starvest shares in issue**		**37,217,259**
	Asset value sensitivity to changes in portfolio stock prices			
		Effect on Starvest assets/share (p)		
	Investee company	Current Share Price	Effect of 1p change	Effect of 10% change
OFEX	ConcordeOil & Gas	11.00	1.554	1.709
AIM	Afplats + Warrants	30.50	0.410	1.250
OFEX	Franchise Investment Strategies+Warrants	5.50	0.534	0.294
OFEX	MyHome Intl (ex Chores Gp)	26.50	0.089	0.235
AIM	Hidefield Gold	9.13	0.215	0.196
OFEX	Sheba Exploration (UK)	1.63	1.075	0.175
OFEX	Fundy Minerals	5.50	0.309	0.170
OFEX	Franconia Mineral Corp + Warrants	12.50	0.130	0.162
AIM	Regency Mines	1.88	0.775	0.145
AIM	Addworth +Warrants	2.25	0.645	0.145
AIM	Red Rock Resources (via Regency)	2.38	0.511	0.121
AIM	India Star Energy	1.13	0.672	0.076

Copies of Starvest's Annual Report and Regulatory Announcements can be downloaded from the company website www.starvest.co.uk together with links to its investee companies.

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