

Listing On AIM

London's Alternative Market

AIM, the alternative market of the London Stock Exchange, is the world's leading market for smaller, growing companies. Since its launch in 1995, over 2,400 companies have chosen to join AIM and raised in excess of £34bn. By the end of October 2006, over 1,500 companies were trading on AIM with a market capitalisation of over £74bn. In the first 9 months of 2006, 330 companies joined AIM of which 86 were international bringing the total international companies trading on AIM to more than 280.

AIM's success is built on a simplified and flexible regulatory environment which has been specifically designed for the needs of smaller companies. By listing on AIM, a company gains:

- > access to a globally respected market
- > access to a wide pool of capital
- > enhanced profile
- > increased status and credibility
- > currency for and easier rules on acquisition.

Accessible

Unlike most other markets, AIM has a flexible approach that does not stipulate minimum criteria in relation to company size, trading record, or number of shares to be in public hands. Uniquely, all prospective companies need a nominated adviser ('Nomad') from an approved register who bears responsibility to the London Stock Exchange for ensuring that all applicants are suitable for admission to AIM and ready to be admitted to a public market.

There is no requirement for a London office or resident directors, although the Nomad will normally require an appropriate mix of executive and non-executive directors for corporate governance purposes.

This approach ensures appropriate quality control of AIM companies whilst making AIM as open as possible to a range of smaller, growing companies.

Simple Admission Process

The AIM rule book is short and simple. To gain admission to AIM companies must in general produce an admission document that includes information about the company's directors, their promoters, business activities and financial position. This admission document is not, however, pre-vetted by the Exchange nor UK regulatory authorities but rather by the Nomad. Where a fund raising is undertaken at the time of application, the admission

document will also be used for that purpose and the fund raising is customarily done as an institutional private placing to avoid any need to prepare a public offer prospectus requiring approval by the UK regulatory authority. The rules contain certain pre-admission filings and generally the process takes around 3 months to admission.

Once shares are admitted to AIM, trading will commence and the AIM company's share price will be visible across the Exchange's information network of 90,000 terminals worldwide.

Liquidity in the secondary market is provided by market makers who are member firms of the London Stock Exchange and are obliged to quote a price in your shares between 8am and 4.30pm UK GMT time. Trading by investors is carried out through the Exchange's network of member firms.

A Fast-Track Route to Joining AIM

AIM has also created a streamlined admission process to make it even easier for international companies who have already been admitted to certain other major markets for at least 18 months to come to AIM. These companies need not produce an admission document but simply need to make a detailed pre-admission announcement. Existing published information can generally be relied upon although the latest annual audited accounts may not be more than nine months out of date.

This fast-track route is available for existing listings on the following stock exchanges:

- > Australian Stock Exchange
- > Deutsche Börse
- > Euronet
- > Johannesburg Stock Exchange
- > NASDAQ
- > New York Stock Exchange
- > Stockholmbörsen
- > Swiss Exchange
- > Toronto Stock Exchange
- > UK Official List (as issued by the UK Listing Authority).

Admission to AIM using the fast-track route does not, however, give the ability to raise funds at the time through a public offer as that would involve the publication and regulatory approval of a prospectus. It does, however, allow institutional private placings which can also take place without the costs of a public offering. The fast-track route can take between four to six weeks.

Ongoing Obligations

All AIM companies are required to disclose details of their financial performance through scheduled interim and full year results announcements. In addition, the company will be required to make disclosures on an ongoing basis about other developments that might have an impact on the future performance of the company and/or its share price.

In most cases, AIM companies are not, however, required to produce further documentation or to obtain shareholder approval when effecting acquisitions and disposals thus enabling the company to expand or change direction quickly and cost-effectively. Material transactions merely need to be disclosed and shareholder approval only obtained for reverse takeovers.

Board members and other employees will, of course, be subject in any event to the disciplines of having shares traded publicly and must be prepared for closer scrutiny of the company and its performance and of key management decisions and actions.

Under the AIM rules during closed periods, prior to announcements of results and other information, dealings in the securities of AIM company by directors and relevant employees are prohibited.

Choosing a Nomad

The choice of Nomad is central to the process. Each AIM company must have a Nomad at all times both before and after admission. In the run up to admission, the Nomad will:

- > assess whether the company is appropriate for the market
- > explain the AIM rules to and ensure that the directors are aware of their responsibilities and obligations
- > co-ordinate the work of other professionals – such as accountants and lawyers who are involved in preparing the company for the market
- > help put together the admission documents

Thereafter the Nomad will give ongoing advice and guidance on the AIM rules.

Choosing a Broker

AIM companies must also have a broker who is a member of the London Stock Exchange. Whilst they may be, and commonly are, part of the same organisation as the Nomad, procedures must be in place to avoid conflicts of interest as they work together on any fundraisings.

In particular, a broker will play an important role in:

- > finding prospective investors for the company's shares
- > preparing and accompanying the company on any roadshow to promote its shares to investors
- > trading in the secondary market
- > providing research on the company.

Others Advisers

The roles of other advisers involved in the listing process include:

Lawyers

- > Ensuring that all legal requirements are met both in preparing the company for admission and in the information disclosed in the AIM admission document.
- > Assisting in drafting the AIM admission document and ancillary agreements.
- > Verifying the accuracy of information included in the AIM admission document.

Independent reporting accountants

- > Preparing a 'long-form' report on the company, a private document which assists the Nomad and other advisers in assessing whether the company is appropriate for admission to AIM.
- > Preparing a 'short-form' report on the company's financial record for inclusion in the AIM admission document.
- > Reporting on the company's working capital requirements.
- > Reporting to the directors and the Nomad on the adequacy of the company's financial systems and controls.

Public relations advisers

- > Arranging press coverage on the company in advance of admission.
- > Co-ordinating publicity on the day of and after admission to trading on AIM.

Issues

Although an AIM listing is fairly straightforward and all the necessary steps are generally within the control of the company and its advisers there are, however, certain issues that should be addressed and resolved early in the process.

Working Capital. For a company that is following the normal application process, its directors must be able to state in the AIM admission document that the working capital available is sufficient for at least the next 12 months from admission. For a company that qualifies for the fast-track route, the directors of the company must be able to state the negative, namely that they have no reason to believe that the company's working capital will be insufficient for the 12-month period post-admission. The reporting accountants are usually required by the Nomad to produce a working capital report in support of these statements, although the Nomad may sometimes take the view that a full audited working capital report is not required for companies following the fast-track route.

Lock-in Requirement. Where a company's main business activity has not been independent and earning revenues for at least two years, all the company's directors, any shareholders who hold more than 10 per cent of the company's shares and employees holding more than 0.5% must agree not to dispose of any of their interests in the securities for one year from the date of admission. The Nomad may also request a further 12 months orderly market period and seek to obtain lock-ins from all shareholders.

Financial Statements. The company's accounts (including those set out in the AIM admission document) must be prepared in accordance with either International Accounting Standards, US GAAP, Canadian GAAP, or Australian International Financing Reporting Standards with, if the fast-track process is to be followed, a financial year end not more than nine months prior to admission. The fast-track route also requires that the address of a website containing these accounts, along with the company's latest published annual report be provided, and that the 20-day announcement include a description of any significant changes in the financial or trading position of the company since the date to which the last audited accounts were prepared.

Verification Process. The admission document or announcement (in the case of the fast-track route) will usually be subject to a rigorous written verification or due diligence process. Depending on the nature of the disclosure in the admission document and in the company's public record, verification can be a lengthy and time-consuming exercise and its scope and timing should be agreed to fairly early in the process.

Settlement of AIM Securities. Securities to be listed on AIM must be eligible for electronic settlement through CREST. However, CREST is a system that caters primarily for securities of UK companies, so securities of non-UK issuers settle indirectly through international clearing systems, such as DTCC in the US, with whom CREST have arrangements or through the use of a UK depository arrangement. As each clearing system and depository has its own internal rules and requirements, it is advisable to agree the settlement mechanics as soon as possible once it has been decided which route into CREST will be used.