



The essential guide to AIM cash shells

A guide for companies considering joining AIM via a reverse transaction into an AIM cash shell.

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Forward

Launched in 1995 by The London Stock Exchange, The Alternative Investment Market, or AIM as it is more commonly known, has attracted over 3,100 companies from across the globe. Many business commentators now regard AIM as the most successful growth stock market in the world.

AIM is the only major growth market in the world that has lived through two complete economic cycles and continued to provide funding for a broad range of size and sectors of growing companies.

This guide provides an overview for companies that may be considering a reverse transaction into an AIM cash shell. The guide is designed to demystify the process of undertaking reverse transactions and remove some of the unnecessary city jargon often used in these transactions. We have provided a useful glossary of stock market terms at the end of the guide.

We hope that you find this publication a useful first step in researching AIM cash shells, our consultants are happy to answer further questions that you may have.

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AIM cash shells

Introduction

Cash shells are businesses with money on their balance sheet, but no trading operations listed on The London Stock Exchange's AIM Stock Market and Main Market, or ICAP's ISDX stock market.

The value of cash shells, or special purpose acquisition companies (SPACS), floated on the UK stock markets grew from around £1.2bn in 2010 to £2.5bn in 2011, and £2.7bn in 2012, demonstrating that cash shells have an important role to play in helping to fund growing companies seeking cash and a stock market listing on AIM.

For some privately owned companies, using an existing AIM cash shell can provide a less risky route to joining the market than the more conventional method of admission and fundraising.

The key benefits of reversing into an AIM Cash shell are;

- There is a transparent amount of cash already in the shell ready to invest in the right company
- By comparison with the conventional AIM flotation, the fact that cash is already in the shell means that, in some respects, a reverse into an AIM cash shell may be regarded as a lower risk. Certainly the transaction does not rely on attracting new investors to support a fundraising at the time of admission to AIM
- A reverse transaction into an existing AIM cash shell may be quicker and therefore a less costly method of achieving an admission to AIM, and at the same time, accessing cash to grow a business

The AIM Stock Market

Since its launch in 1995, more than 3,100 companies have joined AIM, raising over £67 billion to fund their growth. Around 20% of these are incorporated outside the UK. A number of factors have contributed to this success, including a balanced approach to regulation which enables companies to quickly adapt to becoming a public company. This ensures companies can focus on growing their business once admitted to AIM rather than being bogged down with red tape and regulation. AIM is an international growth market that attracts high quality international investors.

Why join AIM?

Joining AIM is a way to grow and enhance your business. AIM's key benefits include:

- Access to capital to grow a company, both at the time of admission and through further capital raisings
- A mechanism to place an objective market value on a company's business
- A destination to create a market for a company's shares, helping to broaden the shareholder base
- A platform to create a heightened public profile for a company through increased press and media coverage
- An opportunity to encourage employees' commitment and incentivise their long-term motivation and performance, by introducing share schemes
- Providing funding to undertake acquisitions, using AIM shares as currency
- Creating a heightened profile and credibility to enhance a company's status with customers

AIM Indices

Trading in AIM company shares is supported through a number of indices that have been developed to improve investors' ability to benchmark and trade AIM securities in a variety of ways. There is now a suite of FTSE AIM indices, including;

- FTSE AIM UK 50 Index
- FTSE AIM 100 Index
- FTSE AIM All-Share Index
- FTSE AIM All-Share Super Sector Indices.

In 2005 the London Stock Exchange changed the rules governing newly listed AIM cash shells so that investing companies must raise a minimum of £3 million. This was introduced with the objective of increasing the size of the required fundraising by the cash shell. The new rules were designed to bring in greater scrutiny of cash shell investment strategies and the experience of the directors of cash shells.

The London Stock Exchange also introduced additional rules for cash shell companies, which meant that any fundraising undertaken by the cash shell must be from independent investors, rather than from a company's owners and/or managers.

The rationale for these rule changes was to safeguard AIM's reputation, particularly in light of concerns from some quarters about less than clear investing strategies from some AIM-listed cash shells. Prior to this, AIM cash shells had a remit to pursue a broad range of investment opportunities.

Since the changes, the regulations require the investing policies of cash shells to be more detailed so that potential investment opportunities are clear to investors, and can be used as a guide by stock market investors to base their investment decisions upon.

Some would argue that the consequence of the tightening up of the rules governing cash shells on AIM has meant that the cash shells have lost a degree of flexibility to take advantage of investment opportunities, as the rules require AIM cash shells to have their major transactions approved by their shareholders.

What are AIM cash shells?

Historically in the UK, AIM cash shells were small AIM companies that targeted early stage or growing companies. They became popular as companies considering joining AIM discovered that, in some cases, it may be easier to gain access to stock market funding through an existing AIM cash shell rather than to join AIM and try to raise the money via the traditional method.

AIM cash shells usually arise in one of two ways;

- Firstly, they may be an existing listed company on the AIM Market, which has disposed of their entire trading business and the only remaining asset is the cash that it received from the proceeds.
- Alternatively, an AIM cash shell may arise out of a newly incorporated company without any other assets that joins the market with new funds ready to invest in a suitable company. These AIM cash shells are often referred to as 'clean shell' companies.

AIM cash shells are unlikely to have any assets other than a management team with particular sector background knowledge and expertise and cash that has been raised from the cash shell's financial backers. In some cases this will include the cash shell's own senior management.

Whilst stock exchanges generally have no issues with companies disposing of their trading business to make a profit and becoming cash shells, over recent years a number of stock exchanges, including AIM, have tightened their rules governing the listing of clean cash shells.

Where an existing listed stock market company has become a cash shell, most Stock Exchanges require that the shell re-invest its cash into a business within a certain period of time or face the threat of de-listing.

Over recent years companies have proven that, if properly researched and advised, reverse transactions into AIM cash shells can be undertaken successfully with the cash in the shell put to good use.

At a time when global economic conditions remain fragile and with an increasing number of growing companies unable to access sources of funding from banks and other debt providers, an increasing number of privately owned companies are looking towards other funding solutions, such as AIM cash shells.

Valuation of AIM cash shells

Historically the average size of cash shells on the UK stock markets has been around £5 million. The stock market with the most cash shells with cash reserves has been AIM and the average amount of cash in the bank for AIM cash shells is around £6m.

Examples of AIM cash shell transactions

- Twenty, an AIM-quoted marketing services provider, floated with a £10.5 million reverse takeover of customer relations management specialist Dataforce Holdings.
- Tanzania Gold, a mining company in East Africa, floated on AIM by reversing into e-commerce provider Voss Net.
- The reverse takeover of Northcote Energy by Everest Energy Limited for \$10m. On completion Everest Energy Limited (renamed Northcote Energy Limited) was admitted to AIM and completed a Placing to raise £1m. Northcote is a US-focused on-shore oil exploration and production company.

Clean AIM cash shells

Clean AIM cash shell companies are formed from cash reserves with the sole purpose of finding a suitable business, which is privately owned, that would add value to the clean shell company and could undertake a reverse transaction into it.

Usually a clean AIM cash shell is a new company without a previous trading history or other legacy issues that could pose a risk to the reversing company.

'Dirty' AIM cash shells

Listed AIM shell companies can vary considerably in their history with some shells having been listed on the market for many years.

Because a shell is considered 'dirty' it does not necessarily follow that it is not a suitable shell for a company to consider reversing into. However, before committing to a reverse transaction involving a dirty AIM shell company it is essential to understand the history of that company, how it has become a shell and what, if any, liabilities your company will inherit if a reverse transaction is undertaken.

It therefore becomes important to engage the services of a specialist to investigate the shell company and also to undertake satisfactory levels of due diligence to establish what liabilities your company may be taking on, some of which may include:

- The debts to previous customers
- Ongoing contracts with existing customers
- Contractual obligations with suppliers
- Agreements with banks and other lenders
- Employee contracts
- Potential tax liabilities

In many cases dirty AIM cash shell companies have an existing broad shareholder base that has been built over a number of years and which can be utilised by the reversing company, acting as a solid base for the company to build from.

However, one must bear in mind that inheriting a long list of existing shareholders in the shell company does not necessarily mean that they will all want to remain investors in the new company following the reverse transaction.

The benefits of AIM cash shells

Guaranteed cash

The key benefit for companies considering a reverse transaction into an AIM cash shell is the guarantee that there is cash there to be used. By contrast, companies using the more traditional route of joining AIM and undertaking a fundraising, have to undertake the process of listing on the market whilst undertaking a fundraising exercise at the same time.

Many of the other benefits that companies enjoy having joined AIM via the traditional route will apply to those that have chosen to reverse into an AIM cash shell and these include:

- **AIM public company status**
- **An increase in the value of the company** - the opportunity to grow the value of the company through increases in its share price over a period of time
- **Further fundraisings** - having been admitted to AIM via a reverse transaction into a cash shell, going forward the company may have the opportunity to undertake further fundraisings through the issue of more shares once the company becomes established on AIM
- **Exit routes** - entry to AIM via a cash shell transaction may provide a route for the company's existing shareholders to exit, or part exit the company over the medium or longer term
- **Existing expertise** - in most cases the existing cash shell will have an existing board of directors in place. Depending upon the backgrounds of the individuals involved, these may be useful additions to a reversing company's board, as they may have valuable sector knowledge and the experience of running a company on a public market

In addition, there are benefits to the shareholders of the shell company. Successful transactions involving AIM shell companies may enable the shareholders in the shell company to retain some stake in a newly transformed entity, which may become a more successful enterprise. The benefit to the shareholders of the shell company can be significant over time as they see the value of their shareholding increase.

The drawbacks of AIM cash shells

Costs - the cost of becoming a public company, either via the traditional route, or via a reverse transaction into an existing cash shell, are considerable.

The reason for this is that in some cases, the advisor costs involved in the cash shell transaction can be significant because of the need for two sets of lawyers and accountants; one set to represent the shell company and the other set to represent the reversing company.

For some companies expecting a cheap and cheerful route to AIM, the costs associated with the transaction remain the main barrier.

Hidden liabilities in a dirty shell - although the cash already in the shell company may be of considerable benefit to the reversing company, it is of paramount importance that the company ensures the risks associated with the legacy liabilities of the reverse transaction, particularly into a dirty shell, are minimised.

New Shareholders - for many companies, one of the more difficult decisions about joining a public market is coming to terms, perhaps for the first time, with the concept of having shareholders from outside the company. However, many would argue that having a number of smaller shareholders rather than one large shareholder (such as a venture capitalist) owning a part of the company is considerably less onerous.

Nevertheless, a listing on a public market, whether via a reverse into an AIM cash shell, or via a traditional listing, provides the senior management team of a company with the flexibility to pursue their growth strategy, in the vast majority of cases, without interference from one dominant shareholder.

Undertaking an AIM reverse transaction

We have mapped out what we consider to be best practice for privately own companies considering reversing into an AIM cash shell.

Internal review

Look at your own business first. Do you have a robust business strategy and a strong growth story to tell that will potentially interest the managers of an AIM shell company?

The managers of the shell company are unlikely to engage in serious discussion with either you, or your cash shell advisors, if you are not able to provide a strong case as to why they should consider a transaction with your company.

It is therefore essential that your company has a pre-prepared business plan, including financial projections. This needs to clearly demonstrate how the cash in the cash shell company would be used and the benefits of a transaction, both for your business and the shareholders of the cash shell company.

It is advisable to have these documents prepared by experts and your cash shell advisor will work with you to ensure that they reflect the right balance of risk and reward for the management and shareholders of the cash shell.

Search the market

There are various annual research papers available that review cash shells; however these quickly become out of date. New clean shell companies are formed or come to the market frequently and good quality AIM cash shells don't usually stay around for long.

Ask a cash shell expert to undertake a search and to establish the most suitable cash shells available that match your company's requirements. Your advisor will draw up a shortlist of potential cash shell candidates and help you to weigh up the benefits and drawbacks of each, before an approach is made.

Choose an appropriate cash shell

Your cash shell advisor will work with you to narrow down the search to a particular target cash shell.

Approach the owners of the cash shell

It's often useful for a third party to make an initial enquiry into the feasibility of a reverse transaction of your company into the shell company. Your advisor will be able to undertake this on behalf of your company.

Your advisor will arrange a meeting with representatives from the cash shell and discussion will commence regarding the possibility and suitability of a reverse transaction of your company into the cash shell.

Be prepared for discussions regarding the value of your company and the shell company, and the terms of such a transaction. Inevitably compromises will be made on both sides.

Apart from the more obvious potential pitfalls of reversing into a shell company, one area often overlooked is the human element, which is perhaps the most challenging area of all in undertaking a reverse into an AIM cash shell.

It is important to pay particular attention to, and be respectful of, the individuals on the board of the shell company. In the case of a dirty shell in particular, some of its board members may have a huge emotional attachment to their company, having previously invested a considerable amount of time, energy and often their own money, into the company.

Above all be patient and respectful throughout the process. You will need to work with the board of the shell company and not against them. These transactions can be a 'win-win' scenario for both sides if a transaction is successful.

Understand the needs of the shareholders of the cash shell

Your company should be aware of who the existing shareholders in the cash shell are, their size of shareholding and their investment strategy. Your cash shell advisor will provide the necessary information and seek their approval for any transaction. This is particularly important if the shell has larger shareholders with more than 10% stake in the cash shell.

Before your company undertakes a reverse transaction into the chosen AIM cash shell, you may also require specialist tax advice, for example, to advise on advance tax clearance to ensure that, as far as the vendor's shareholders are concerned, they qualify for rollover relief, if applicable.

Further considerations

There are further tax, VAT and PAYE considerations for companies considering a reverse into an AIM cash shell company. For example, if you have losses in your own company and you are reversing into a cash shell, it may be that you end up with a change of ownership and there are anti-avoidance tax provisions that can then potentially put your losses at risk.

What are the owners of AIM cash shells looking for in a reversing company?

The management of the majority of AIM cash shells are looking for suitors that offer the potential for some decent capital growth.

Pre-recession, the owners of AIM cash shells were often willing to consider transactions with higher risk blue sky companies, however in more recent times, and post-recession, AIM cash shells have, understandably, become more risk averse.

So it follows that, if you are an established business with a track record of growth, you may be in a stronger position to tempt the owners of an AIM cash shell with the promise of growth underpinned with a degree of security.

AIM cash shells compete with private equity funders, simply because they have cash-in-hand ready to invest in growing or successful businesses. Clean cash shells are generally set up as an 'investment vehicle'; the directors and shareholders of a cash shell are looking for a business, ideally from the same or similar business sector as the background and experience of the directors of the cash shell.

They may take more interest in your company if you have;

- A scalable business model
- A business operating in a niche sector with high barriers to new entrants
- A company that has already demonstrated year on year growth, or if your business has the potential to do so

Timing

Typically an AIM cash shell transaction will take between three and five months. However, the timetable may depend on the length of the due diligence work that has to be carried out and whether any significant issues are identified during this process.

Advisers

Flotation/cash shell consultants - their role is to prepare the company's business plan, undertake an initial feasibility study, research existing cash shells on AIM and assess potential targets. They will also support the company in making initial approaches, building a strong board and considering the growth strategy post the reverse transaction.

Nomad/Broker - typically the Nomad will also act as the company's broker. They will run the process and are responsible to the London Stock Exchange for agreeing the suitability of the company.

Reporting accountants - the reporting accountants are responsible for preparing reports, including any required working capital reports. They will also review the financial reporting systems and controls.

Lawyers - will carry out a legal due diligence review and advise the company on the legal aspects of the transaction.

Financial PR - will be responsible for generating positive ongoing media coverage of the company's activities.

The ongoing obligations of AIM

Following the transaction the company will be subject to the same set of continuing obligations set out in the AIM Rules as any other company on the market. The key rules are as follows;

Disclosure of price sensitive information

One of the key continuing obligations relates to the disclosure of price sensitive information. This includes specific information that must be publicly announced (AIM Rule 17)

- details of any substantial transactions, any related party transaction, reverse take-overs or a disposal resulting in a fundamental change of business
- deals by directors in the company's shares
- changes to any significant shareholders
- the resignation, dismissal or appointment of any director of the company
- any change in the company's accounting date
- a change in a company's registered office address
- changes in the company's name
- any decision to pay any dividend
- the reason for the cancellation of any of its shares
- the resignation, dismissal or appointment of its Nomad or broker
- a general obligation to take reasonable care to ensure that any information released to the market is not misleading, false or deceptive

Financial reporting after the transaction

Annual accounts

A company admitted to AIM via a reverse transaction into a cash shell must publish annually audited accounts within six months of the end of the financial year to which they relate. For UK and EEU companies these must be prepared in accordance with International Accounting Standards.

Half-yearly reports

Once on AIM, companies are required to produce a half-yearly report. This must be published within three months after the end of the period to which it relates.

Code on share dealing

A company on AIM must ensure that its directors and applicable employees do not deal in its shares during a close period. Compliance with this requirement is addressed by adopting a code on share dealing. The code sets out the details on what steps directors and applicable employees should take before they deal in the company's shares. For the purposes of the share-dealing code, an employee is an applicable employee if they are likely to be in possession of unpublished, price-sensitive information in relation to the company.

Corporate governance on AIM

The UK Corporate Governance Code does not apply to companies admitted to trading on AIM. However, investors and potential investors will expect to see the company adopt some of the best practice principles and provisions set out in the UK Corporate Governance Code.

As a guide, the London Stock Exchange state that "Given the nature and range of smaller, growing companies that predominantly make up AIM's constituent members, the Exchange has believed for some time that a blanket requirement to comply or explain against a particular code, in a 'one size fits all' style, is not appropriate." The Quoted Company Alliance, or 'QCA', has published Corporate Governance Guidelines for Smaller Quoted Companies, including AIM companies.

Undertaking acquisitions and disposals

In most cases the company will not require shareholder approval prior to undertaking an acquisition. A company will just be required to make an announcement to the market. The information must contain the information required by Schedule 4 of the AIM Rules for Companies.

The exception to this is if the acquisition is a reverse takeover, then shareholder approval will be required. Similarly, shareholder approval is not required for any disposal that is treated as a disposal resulting in a fundamental change of business.

Director's remuneration report

There is no formal requirement for an AIM company to produce a director's remuneration report. This is because a company admitted to AIM is not considered to be a 'quoted company' for the purposes of the UK Companies Act.

However, under Rule 19 of the AIM rules, the annual accounts must contain details of director's remuneration earned in that financial year.

GLOSSARY OF STOCK MARKET TERMS

Admission - the admission of securities to trading on a stock market.

Admission and Disclosure Standards - the London Stock Exchange's Admission and Disclosure Standards for securities admitted or seeking to be admitted to trading, as set out in this document, as amended from time to time.

Admission Document - the disclosure document that a company applying for admission to AIM must produce. The document contains information set out in schedule two to the AIM Rules for Companies. Unlike a Prospectus, an Admission Document does not need the approval of the FSA.

AIM - originally called the Alternative Investment Market. The London Stock Exchange's market for smaller growing companies. Regarded as the most successful growth stock market in the world.

AIM Cash shell - a cash shell is a company that does not quite meet the definition of a shell company, but whose main value nonetheless lies in its listing rather than its assets or its business.

AIM Rules for Companies - the rules for companies admitted to trading on AIM or which are applying for admission to AIM published by the London Stock Exchange.

Approved prospectus - the document produced by the company and its advisors to be approved by the Competent Authority of the company's home country and published in relation to the admission of securities to a regulated stock market, or an offer of securities to the public.

Bonds - a bond is a financial security that pays interest. Most bonds have a fixed life and the principal is returned on maturity.

Capital structure - the capital structure of a company is the particular combination of debt, equity and other sources of finance that are used to fund long term financing.

Chinese wall - a system designed to prevent confidential information leaking from one department of a financial institution to another.

Covered warrant - a listed security issued by a party other than the issuer or originator of the underlying asset that gives the holder the right, but not the obligation, to buy or sell an underlying asset at a specified price during, or at the end of, a specified time period.

City Code - rules administered by the Panel governing offers for public companies.

Class tests - tests set out in the London Stock Exchange's AIM Rules for Companies that are used to establish what type of transaction involving a company is taking place. These could be a substantial transaction, a related party transaction, a reverse takeover or a disposal resulting in a fundamental change of business.

Combined Code - the benchmark for best practice corporate governance.

Corporate Governance - used to describe the systems used to control corporations. There are corporate governance codes and recommendations that are not compulsory.

Close Period - a period of time in which an AIM company must ensure that its directors and applicable employees do not deal in any of its own shares. This is a period of two months before the publication of a company's annual results and the period of two months immediately preceding the announcement of its interim results. In addition, a company will also be in a close period if it is in possession of unpublished price sensitive information.

Continuing obligations - the rules applicable to AIM companies on a continuing basis following Admission to the AIM Stock Market.

CPR - a competent person's report, the rules and requirements of which are contained in the Guidance Note for Mining, Oil and Gas companies published by the London Stock Exchange. These are specific guidelines that relate only to resource companies.

CREST - the system for the paperless settlement of trades in securities and the holding of certificated securities operated by Euroclear UK & Ireland Limited (previously CRESTCo Limited).

Depository receipt (DR) - a transferable certificate that represents shares in a company and confers certain rights in respect of those shares, issued by a depository bank for the purposes of admission to trading.

Dividend - The part of a company's profits after tax that is distributed to shareholders, usually expressed in pence per share.

DTR - the Disclosure and Transparency Rules published by the FSA.

Dual listing - a dual listing of a company is a way for a company to have two equal listings (neither being a secondary listing) in different markets.

Due diligence - the process of obtaining all information about a company to ensure that the company is appropriate to be admitted to the AIM stock market.

EPS - 'earnings per share' (EPS) is the profit attributable to shareholders (after interest, tax, minority interests and everything else) divided by the number of shares in issue.

Equity - is the stake its owners have in the company. This is the risk-sharing part of a company's capital, usually made up of ordinary shares.

Exchange Traded Funds (ETFs) - listed funds that track the performance of an underlying index or basket and can be traded in the same way as an ordinary share.

Flotation - when a company's shares are admitted to trading on a stock exchange.

Free float - the amount of shares in a company that are in 'public hands' i.e. not owned by a director of the company or its subsidiaries, or individuals connected with the company and any person holding five per cent or more of the shares.

FSA - the Financial Services Authority, who act as the competent authority in the UK.

FSMA - The Financial Services and Markets Act 2000.

FTSE Indices - maintained by FTSE International, which demonstrate the performance of various sectors of the UK and European markets. These include indices for the Main Market, such as the FTSE 100, the largest 100 companies by market capitalisation on the market. Also indices for AIM, such as the AIM 50.

Gearing - often known as leverage, measures the extent to which a company is funded in debt. A common definition is 'debt divided by shareholders funds'.

Insider dealing - the purchase or sale of securities by someone who possesses 'inside' information affecting securities, which has not yet been made available to the market and which, if made available, would significantly affect the share price. In the UK, this is regarded as a criminal offence.

Introduction - a method of obtaining admission to AIM without an offering of shares.

IPO - an Initial Public Offer is the sale of shares to the public as a precursor to the shares trading on an exchange for the first time.

Issuer - an entity with a class of securities admitted to trading on a stock market.

Listed company - a company is said to be 'listed' or 'quoted' or 'having a listing of its shares'. It is the company's shares, not the company that is listed.

Listed/Listing - the admission of securities to a listing by a competent authority under the law or regulation of a member state implementing EU directive 2001/34/EC.

Listing Particulars - a document in such form containing such information as may be prescribed by the Listing rules of the FSA.

Long form report - a financial due diligence report, prepared by accountants on the company and its subsidiaries. In contrast to the short form report, this document is not disclosed to the public.

Listing Rules - The Listing Rules of the United Kingdom Listing Authority.

Liquidity - The ease with which a security can be traded without influencing the price.

Lock-in - an agreement that means that a shareholder will not dispose of any shares in the company for a specified period after admission to AIM. This can be subject to exceptions.

LSE - London Stock Exchange plc. The LSE operates AIM and the Main Market.

Main Market - The largest stock market operated by The London Stock Exchange.

Market capitalisation (Market Cap) - the total value of the shares of a company, sector or market.

Market Maker - a securities firm that is obliged to offer to buy and sell securities in which it is registered to the market for the first time, or issues of extra shares.

MIFID - the European Parliament and Council Directive on markets in financial instruments

New issue - an issue of shares when the company comes to the market for the first time or issues extra shares.

Nominated Advisor - a firm approved by the London Stock Exchange to support flotations on AIM and to be retained by the company for the duration of its time on the market.

Prospectus Regulation - Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive as regards information contained in prospectuses, as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements. The Prospectus Regulation contains the detailed contents' requirements for a prospectus.

Prospectus Rules - the prospectus rules published by the FSA. These now form part of the FSA Handbook.

Offer price - the selling price for securities in the market.

Offer for subscription - a method of bringing a company to market. The public can apply for shares in the company directly at a fixed price.

Official List - the list maintained by the FSA of those securities that have been admitted to listing.

Order book - a facility operated by the London Stock Exchange for the electronic submission and automatic execution of orders in any order.

Ordinary Shares - the most common form of share. Holders may receive dividends in line with the company's profitability and on the recommendation of its directors.

Panel - the Panel on Takeovers and Mergers. The Panel is an independent body whose main functions are to issue and administer the City Code and to supervise and regulate takeovers and other matters to which the City Code applies in accordance with the rules set out in the City Code.

Placing - an issue of shares to institutional and other selected persons rather than to the general public.

Preference Shares (prefs) - these are legally shares, but they are different from ordinary shares. The economic effect of prefs is more like that of bonds. Like convertibles, they are regarded as hybrids of debt and equity.

- Dividends on preference shares have to be paid before dividends in ordinary shares
- Preference Shareholders have a higher priority if a company is liquidated than ordinary shareholders, although a lower priority than debt holders
- Dividends on ordinary shares may not be paid unless the fixed dividends on preference shares are paid first
- In the case of cumulative prefs, if the dividend is not paid in full, the unpaid amount is added to the next dividend due.
- Preference dividends are fixed, so they do not participate in increases in profits as ordinary shareholders do

Price/earnings ratio (P/E ratio) - the P/E ratio is a measure of the level of confidence investors have in a company. Generally, the higher the figure the higher the confidence. It is calculated by dividing the current share price by the last published earnings per share – where earnings per share is net profit divided by the number of ordinary shares.

Primary market - the function of a stock exchange in bringing securities to the market for the first time. Money is raised either for the company at admission or through further issues to fund future growth.

Private company - a company that is not a public company and which is not allowed to offer its shares to the general public.

Professional Securities Market (PSM) - The London Exchange's market for debt securities or depositary receipts of any denomination, aimed at a professional investor audience.

Prospectus - when a company applies for a listing of its securities, which are to be offered to the public in the UK, a prospectus is required in accordance with the UKLA's rules, detailing information on the company, its accounts, directors and its securities listed. Most AIM fundraisings are structured as Placings to avoid this requirement.

The threshold for fundraisings that require a prospectus is €5 million. Offers of shares made to less than 150 persons per member state also do not require a prospectus.

Public Limited Company (plc.) - a company whose shares may be purchased by the public and whose share capital is not less than a statutory minimum. Not all plcs are listed companies.

Recognised Investment Exchange (RIE) - an organisation that is recognised by FSA as complying with the recognition requirements laid down in the Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001.

Registrar - an organisation responsible for maintaining a company's share register.

Related Party - any director of the company, or any other group company, any substantial shareholder who holds 10% or more of the company's shares, or any associate of any director or any substantial shareholder.

Reporting Accountants - the accountants appointed by the company to, among other things, prepare the long form report and the short form report.

Reverse takeover - a reverse takeover is one in which control goes to the shareholders of the company that is legally the one that is bought. The term is used to describe the purchase of a listed company by an unlisted company.

Rights issue - a rights issue is a way in which a company can sell new shares in order to raise capital. Shares are offered to existing shareholders in proportion to their current shareholding. Rights issues are common because shareholders have the right of first refusal (pre-emption rights) on the new issue of shares.

RNS (Regulatory News Service) - owned and operated by The London Stock Exchange, this enables news about Main Market and AIM companies to be disseminated to all RNS subscribers, such as information vendors at the same time for onward transmission to the market. Companies on the stock markets pay a fee to make their announcements through RNS, or other market information service providers.

Scrip dividend - the distribution of cash to shareholders with option to elect to receive shares in the company instead of the cash payment.

Secondary listing - a security may be listed in more than one market. It is common for such listings to be a primary listing with others secondary listings.

Settlement - the process of transforming stock from buyer to seller to buyer and arranging the corresponding movement of money between the two parties.

Share Capital - share capital is an accounting number that is part of the breakdown of shareholders' equity on the balance sheet.

Shareholders Funds - shareholders funds is the balance sheet value of the shareholders' interest in a company.

Shell Company - a shell company is a company that exists but does not actually do any business or have any assets. Given that it takes time and money to obtain a listing on any stock market, a listed shell has significant value, even if does not have any assets. Listed shells are therefore often targets for reverse takeovers.

Short form report - the accountants' report on historical financial information, which is reproduced in the Admission Document.

Specialist Fund Market - the Specialist Fund Market is the London Stock Exchange's market for highly specialised investment entities that wish to target institutional, professional and highly knowledgeable investors.

Stock - when referred to as a security, stock is the security not divided into units, as shares and corporate bonds usually are.

TechMARK - The London Stock Exchange's branding for innovative technology companies listed on its Main Market.

TechMARK mediscience - the specialist segment of the Main Market, which focuses on innovative healthcare companies.

TradElect - a system operated by the London Stock Exchange, which supports the trading services, facilitates quote and order entry, automatic execution of orders, receipts and publication of trade reports and which is a reporting system.

UK Corporate Governance Code - this sets out best practice in relation to issues such as board composition and development, remuneration, accountability and audit and relations with shareholders.

UKLA - The Financial Services Authority acting in its capacity as the United Kingdom's Listing Authority.

Underwriting - an arrangement by which a company is guaranteed that the issue of shares will raise a given amount of cash. Underwriters undertake to subscribe for any of the issue not taken up by the public. They charge a commission for this service.

Verification - the process, based on written questions and answers, which is designed to ensure the accuracy of the information (other than financial information) contained in the Admission Document.

Warrants - securities giving the holder a right to subscribe for a share or a bond at a given price and from a certain date.

Working capital statement - a statement by the directors of an AIM company in the Admission Document that, in their opinion, the working capital available to the company is sufficient for at least 12 months from Admission to AIM.

Yield - the return earned on an investment, taking into account the annual income and its present capital value. There are a number of different types of yield and in some cases different methods of calculating each type.

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