The Essential AIM Stock Market Guide

A guide for companies considering floating on AIM

HollandBendelow
FLOTATION CONSULTANTS

The essential AIM Stock Market guide

Contents

1. Introduction

Since its launch in 1995, over 3,000 companies have joined the AIM Stock Market, raising over £70 billion of investment capital to fund their growth.

AIM has been designed with an appropriate level of regulation which helps privately owned companies to become public companies with the minimum about of unnecessary red tape.

Companies choose to join AIM for a variety of reasons, including;

- A platform to raise funding in the short term to expand the business
- A mechanism to undertake further fundraisings in the future to enable continued business growth
- The opportunity to enhance the value of the company
- A way in which a company can take advantage of opportunities to acquire other businesses
- The opportunity to raise the profile and credibility of the company to new and existing customers
- A strategic exit route for existing investors

The AIM Stock Market is now firmly established and can boast, that it is the only major growth market that has survived and flourished through two complete economic cycles.

The decision to take your company to AIM may be one of most important steps you take. We hope that you find this publication a useful first step in considering AIM for your company. Our consultants are happy to answer further questions that you may have.

John Holland
Managing Director

Holland Bendelow

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2. The AIM Stock Market

AIM or (The Alternative Investment Market) is London Stock Exchange's stock market designed for smaller and growing companies. The AIM Stock Market is now regarded as the leading growth stock market in the world, with a broad range of companies representing a wide range of countries and business sectors.

The AIM Stock Market provides a destination for companies who require capital to support their growth and innovation potential. AIM now plays an important role in funding a variety of small and medium-sized enterprises.

AIM is home to companies from over 40 different business sectors, from Mining to Biotech. Perhaps AIM's greatest achievement is that even at the height of the recession during 2009, companies listed on The AIM Stock Market were able to raise an impressive £4.7 billion when many other stock markets and lending institutions worldwide were unable to maintain satisfactory levels of funding to support growing companies.

Visibility and profile

Admission to AIM provides international visibility and credibility for companies not only with their customers and suppliers but with a wider set of stakeholders Including investors, advisers and analysts. Proactive communication with investors and focused investor relations activities can have a positive impact on the visibility and liquidity of a company's stock.

AIM indices

Today, trading in AIM shares is encouraged and supported through a number of indices that have been developed to improve investors ability to benchmark and trade AIM shares in a variety of ways. The FTSE AIM Index Series includes the FTSE AIM UK 50 Index, FTSE AIM 100 Index, FTSE AIM All-Share Index and FTSE AIM All-Share Super Sector Indices.

The Super Sector indices provide investors with 18 industry-based benchmark tools, helping them to identify macroeconomic opportunities for investment and trading, and to differentiate between the performance of Main Market and AIM companies in a given Super Sector. These help to boost institutional interest and investment in AIM Stock Market Companies.

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3. The benefits of the AIM Stock Market

Why float on AIM?

Being on The AIM Stock Market opens up a whole range of opportunities for growing companies. It is designed to attract smaller, growth companies and achieves this by having a simplified route to admission, a simplified set of rules governing life on AIM, and providing access to the deepest pool of investment capital anywhere in the world.

AIM companies therefore have a distinct advantage over their private company rivals when considering raising money, making acquisitions, or carrying out other corporate finance activities.

Before joining AIM, some companies may have had private equity or debt funding via banks or other lenders. AIM is therefore the next logical step in the funding process for companies requiring to move on to their next phase of growth.

Some of the key reasons why companies join The AIM Stock Market:

- Access to essential investment capital to support growth
- A mechanism that enables companies to raise additional capital on an ongoing basis though the further issue of shares
- A platform from which a company is able to broaden their shareholder base
- AIM enables companies to introduce effective share based reward strategies helping recruit, motivate and reward staff and enhancing employee performance
- Joining The AIM Stock Market enables companies to have an objective market value on the company's business
- AIM companies are able to use shares as currency, enhancing a company's ability to make acquisitions
- The enhanced profile from the increased press and media coverage that AIM companies enjoy can lead to improved status with customers and suppliers
- AIM's balanced regulatory environment is specifically tailored to support the needs of smaller companies
- AIM has an investor base which includes institutional and retail investors
- The AIM Stock Exchange has a wide diversity of business sectors and companies from 28 different countries
- There is an experienced pool of expert advisers to help companies join AIM and support them once they are listed on the market

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Balanced regulation

The AIM Stock Markets success is underpinned by its regulatory environment, which has been specifically designed to meet the needs of smaller and growing companies while offering appropriate investor protection.

AIM also benefits from being an integral part of the portfolio of markets offered by the London Stock Exchange. The entry criteria for AIM is tailored for growing companies with no trading record required, no minimum size criteria, and no prescribed level of shares to be placed into public hands at flotation.

Once admitted to The AIM Stock Market, the on-going responsibilities for a company remain straightforward and are aimed at encouraging growth. For example, there is no requirement for AIM companies to seek prior shareholder approval or prepare circulars except in circumstances where a transaction is classed as a reverse takeover or a disposal resulting in a fundamental change in business.

Taxation

There are certain Tax benefits associated with AIM, however the Tax issues surrounding the market are often complex and it is therefore advisable to take Tax advice from a Tax expert ahead of the flotation. This may include, for qualifying companies, taking advice on VCT and/or EIS investment.

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4. The drawbacks of The AIM Stock Market

Floating a company on The AIM Stock Market is a major commitment for any company, large or small. As well as the benefits AIM offers growing companies, there are also some draw backs. These need to be taken into consideration when deciding whether to not to pursue a floatation on the AIM market.

- There are additional on-going costs needing to be budgeted for which apply to companies listed on AIM. Usually these involve increased accountancy fees and retainer fees for other advisors teams. Also hidden costs should be taken into consideration such as the costs of printing accounts and circulars
- Your company may be open to more public scrutiny than previously, which for some companies is a drawback that they are not willing to accept. Although larger companies, or those with a highly visible brand or product, are likely to attract more scrutiny than a smaller AIM company say in a B2B sector
- The company will be expected to comply with the AIM rules which, although designed to be flexible and meet the needs of smaller growing companies, are nevertheless additional regulatory responsibilities over and above these of running a privately owned company
- Some Directors may need to dedicate a percentage of their time to communicate with analysts and institutional shareholders which means they will have less time available to devote to their business
- All companies on public markets are subject, to some extent, to market sentiment which can be influenced by a host of macro-economic factors, outside the control of the company
- Although the corporate governance requirements of AIM are more flexible than those required to join the Main Market, nevertheless, to some degree, the company will be expected to demonstrate appropriate levels of corporate governance given its size and growth profile

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5. Raising funding on AIM

Of the £70 billion raised by AIM Stock Market companies since the markets launch, there is a split between new capital raised by companies joining the market, and further capital-raisings by existing AIM companies. The ability of companies to be able to use AIM for repeat fundraisings over a period months or years has been one of the markets greatest achievements.

By joining AIM a company significantly enlarges the spread of investors they can approach and therefore makes raising funds by issuing equity considerably easier.

How funding may be used

Money raised can be used in a number of other ways, for example:

- To reduce the dependency on bank finance
- To reduce pressure on working capital
- To pay down significant creditors
- To buy out founder shareholders
- To fund strategic acquisitions

If a company does wish to raise money by issuing equity, many banks understand the process through which a company and its board has to go to join AIM, and this often allows them to be more flexible when setting the terms of any loan making debt funding more straightforward. Also, trade creditors are often able to give more generous payment terms to AIM companies than they would a private company.

Both Institutional and retail investors invest in AIM companies. Given the variance of size of companies on AIM the market appeals to a wide range of investors. For example, larger international investment firms can be found on the shareholder registers of the larger AIM companies and specialist investors, such as Venture Capital Trusts, invest in many of the smaller AIM companies.

Over 40 different business sectors are represented on AIM which demonstrates the maturity of the market and the diversity of companies that use AIM to raise funding. This ranges from those in the software sector to real estate and support services. AIM also provides funding for companies from newer sectors such as renewable energy.

Valuation

One of the key initial considerations for companies looking to join AIM concerns the valuation of the company and potential structure of the equity raise. As with most financial transactions, there are competing interests to consider. Firstly, those of the existing

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shareholders in the company and secondly new shareholders investing in the company for the first time.

It is best practise to engage the services of a professional firm such as a flotation consultant at the outset, and prior to commencing the flotation process, to undertake initial research into the approximate valuation that the company will achieve on AIM. It's also helpful for them to assess the ability of your company to raise funding on the market before embarking on an AIM flotation and incurring significant costs.

It is important to understand that the pricing of a company's stock is a continuous process, for example the Brokers sales team will be having regular communication with potential investors during the marketing period of the flotation process. The Broker will consider demand for the stock and the valuation of the company and will eventually recommend a final price and structure of the issued shares for the approval of the company.

Rarely does demand result in the exact amount being raised at the precise valuation level initially envisaged. The role of the broker is to recommend a price that will leave some demand left on the table to aid the company's trading in the aftermarket.

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6. Making acquisitions using AIM

Being listed on The AIM Stock Market allows your company to use its equity share capital as 'currency' for acquisitions. Shares in a public company such as AIM, with a visible market value, are often far more attractive to a potential target company than shares in a private company. AIM also provides a mechanism for selling the shares which can allow target company shareholders to realise the value in any shares received as consideration for a transaction.

Usually there needs to be a moratorium over selling shares for a period immediately post-acquisition for the significant shareholders. Under the AIM Rules, only transactions which constitute reverse takeovers require shareholder approval. This makes the process of making acquisitions more straightforward. This is particularly helpful as the process involved in undertaking an acquisition needs to move quickly to a successful conclusion.

AIM companies should however be mindful of the provisions of the City Code on Takeovers and Mergers. All UK-based AIM Stock Market companies and some based outside the UK are subject to the provisions that are there to protect shareholders and, in essence, ensure that a fair deal is put on the table and that all shareholders are treated equally.

Class tests

There are five tests, each of which results in a percentage used to determine the size of a transaction on AIM. They are known as the 'class tests':

- the Gross Assets Test
- the Profits Test
- the Turnover Test
- the Consideration Test
- the Gross Capital Test

Substantial transactions

Where an AIM company undertakes a transaction which exceeds 10 per cent in any of the class tests, it is known as a 'substantial transaction'. The AIM Company's advisors will notify the transaction via an RIS announcement to the market as soon as the terms have been agreed. The notification must include certain information prescribed in the AIM Rules, including particulars of the transaction, a description of the business etc.

Reverse takeovers

Where an AIM company undertakes a transaction, or a number of transactions over a period of 12 months, which exceeds 100 per cent in any of the class tests or which will result

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in a fundamental change in its business, board or voting control, it is known as a 'reverse takeover'. For investing companies, a reverse takeover can also be triggered by the company departing materially from its investing strategy. A reverse takeover is conditional on the consent of shareholders and notification of the transaction must be accompanied by the publication of a full admission document of the proposed enlarged entity.

Related party transactions

Where an AIM company undertakes a transaction with a related party which exceeds 5 per cent of any of the class tests. The definition of a related party under the AIM Rules is quite wide and includes parties such as directors, substantial shareholders or associates.

Fundamental disposal

A disposal which, when aggregated with any other disposal over the previous 12 months, exceeds 75 per cent in any of the class tests, is treated as a fundamental change of business and is conditional on the consent of its shareholders in a general meeting.

Investing company

Where the effect of the disposal is to divest the AIM company of its trading business or assets, it is treated as an 'investing company' and must adopt an investing policy at the general meeting. The investing company will then have 12 months to make one or more acquisitions which constitute a reverse takeover or otherwise implement the investing policy.

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7. Joining AIM

The AIM Stock Market is designed to allow young and growing companies from both the UK and from around the world to join with few restrictions. For example the AIM rules do not prevent companies with a short, or even no trading record from joining the market.

The London Stock Exchange's AIM joining rules do not stipulate any minimum requirements for;

- Size (market capitalisation of a company)
- Length of trading record of a company
- The number of shares that a company must put into public hands (free float)
- Number of employees
- Amount of turnover or profitability

In order to join AIM the markets rules stipulate the following;

- Shares admitted to AIM need to be free from restrictions on transferability
- Appropriate settlement arrangements for trades in the company's shares must be in place. (All trades in AIM securities must be able to be undertaken via electronic settlement)
- AIM companies must appoint and retain a Broker and Nomad at all times
- AIM companies are required to pay a joining fee to The London Stock Exchange
- Those companies that are regarded as 'investing companies' are required to comply with special conditions contained within the London Stock Exchanges 'Note for Investing Companies'. The key rule here is that it is a condition of the flotation that investing companies raise a minimum of £3 million in cash via an equity fundraising at the time of admission to AIM
- Those companies from the mining or natural resources sectors must comply with the London Stock Exchanges 'Note for Mining Oil and Gas Companies'. The key rule here is that the company is required to have prepared a Competent Person's Report

AIM and the UK law

The rules governing the offer of shares to the public in the UK are governed by the Prospectus Rules, published by the UK's Financial Services Authority (FSA). The rules are particularly important as they make it compulsory for new companies joining AIM to produce an AIM admission document which contains information equivalent to the information contained in an AIM prospectus (an 'AIM-PD'document), but with certain important omissions. The key issue is whether a proposed fundraising on AIM by a company constitutes an 'offer to the public'. If it does then the AIM admission document must fully comply with the Prospectus Rules, and the document must first require prior approval by the UK Listing Authority.

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It is important to note that these rules also apply to subsequent fundraisings by a company already on AIM. Lawyers will advise on whether an AIM admission document constitutes a prospectus.

In most cases an offer of shares which is to less than 100 persons or to qualified investors is not considered to be a 'public offer' under the Prospectus Rules and therefore will not need to comply with the Prospectus Rules.

Lock-in agreements

The AIM Rules stipulate that where a company's main activity is a business which has not been independent and earning revenue for at least two years, all related parties and applicable employees at the date of admission to AIM must agree not to sell their shares in the company for a period of one year from joining AIM.

Start up and pre-revenue businesses

The AIM rules permit early stage and pre-revenue businesses to join the market, however the task of securing investor support for start-up business can be challenging. It is advisable to engage the services of a flotation consultant first to assess the viability of a potential AIM flotation and fundraising prior to engaging advisor teams and incurring unnecessary costs if the company is unable to gain the support required to achieve a successful flotation and fundraising.

Certain business sectors will be more appealing to AIM investors than others at pre-revenue stage, for example natural resources businesses often join AIM without the benefit of existing revenue streams. Also, some businesses operate in sectors which require a large amount of upfront investment prior to generating revenues, such as Biotech or Software companies.

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8. Methods of floating on AIM

Introduction

An introduction is the route whereby your company would join The AIM Stock Market, but not raise funds at the time of admission. This is often the most cost effective method of flotation and the most straightforward.

Flotation on AIM via an introduction enables a company to access the market and to have an independent valuation of the business, whilst the plc status helps to raise the profile of the business to a wider audience. An introduction would not however involve a significant fundraising and therefore is not chosen as a route for AIM to companies who require an immediate tranche of investment capital in the short term.

Private Placement

The most popular route to AIM for companies looking to raise funds at the time of admission to AIM is via a Private Placement. This is often the most cost effective route to join the market and raise funds at that time, as there may be no requirement for the company to prepare a full prospectus.

Initial Public Offering (IPO)

IPO is a term often used by many to describe any form of stock market flotation. An IPO actually refers to companies who require a full prospectus and offer shares to a wide potential investor audience, i.e. a public offering. Bearing in mind the costs involved in preparing a full prospectus, it is rarely the chosen route to join AIM.

Reversing into an AIM cash shell

Some companies choose to join AIM via a reverse transaction into an existing AIM cash shell. In certain circumstances, reversing into an AIM cash shell may involve the preparation of more documentation than a straightforward admission. This can also potentially take longer as the transaction requires both an AIM admission document and the approval of the shareholders of the cash shell.

There are however some significant benefits of joining AIM via a cash shell as the transaction will enable the company to have a readymade shareholder base and there may not be a requirement to undertake a fundraising road show. Most importantly there is cash available in the shell waiting for investment which removes the risk of an unsuccessful fundraising via the traditional method of floating on AIM.

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If gaining Admission to AIM and undertaking a fundraising via this route is appealing, then please see Holland Bendelow's 'Essential Guide to AIM Cash Shells' for further information, or speak with one of our AIM cash shell experts.

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9. The AIM Stock Market flotation process

Reaching the decision stage

Feasibility stage

Perhaps the most important part in the process of preparing to join the AIM Stock Market involves weighing up the pros and cons of an AIM flotation for the company and its unique set of circumstances and growth strategy.

An AIM feasibility study can assist the Directors and shareholders in considering the benefits and drawbacks of AIM for a company and in assessing this option alongside other alternatives such as private equity funding, debt finance. In some cases where an exit strategy is one of the driving forces behind a potential flotation, the benefits of AIM and the potential returns for shareholders can be weighed up against a trade sale.

How flotation consultants can help

Flotation consultants undertake AIM flotation feasibility studies on behalf of the companies. As part of the study they may decide to test market a company's business proposition with key AIM stock market participates to predict how an AIM floatation may impact on the business. These specialist firms should be the first port of call for companies considering an AIM flotation.

The flotation consultant will usually be an independent expert acting on behalf of the company and not connected in any way to other advisors firms so they may provide expert impartial advice and guidance to the company.

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Following the decision to float on AIM

Once a decision has been taken to float on The AIM Stock Market, the flotation consultant will support the company in arranging the appointment of AIM advisors teams required to float the business, and will be involved in assessing their capabilities. They will also work with the company in shaping the business strategy into a cohesive story which can easily be communicated to advisors, potential investors and regulators. Often the key issue at this stage is to present a proposition which accurately reflects both the current and future trading of the company and ensures that the market puts a fair valuation on the company and its operations

Many pre-float companies do not comply with the best principles of corporate governance and require the appointment of effective and relevant Executive and Non-Executive Directors ahead of the AIM flotation. The Flotation consultant will help search and select appropriate individuals.

The beginning of the process

Following an AIM feasibility assignment, and assuming your company wishes to proceed with a flotation, the next stage in the process is to appoint advisors and agree their terms of engagement. The parties responsibilities will produce a timetable with key action points circulated. In some cases additional due diligence may be required by specialists over and above the work undertaken by lawyers and accountants, this is usually the case where a company is involved in mining or mineral resources. Also, certain technology or bioscience companies may require additional specialist report s to verify the valuation of intellectual property owned by the company.

Working capital forecasts

One of the most important requirements in the AIM rules is for companies to prepare working capital forecasts which are then endorsed by the Directors in an adequacy of working capital statement. It is the role of the reporting accountants to review the company's working capital forecasts and ensure they are robust.

Financial considerations

A company must disclose its audited historical financial information and, where relevant, interim financial information. Pro forma financial information is also included.

The company's reporting accountants prepare a financial due diligence report on the company. This report is often called a 'long form' report. It is used help the advisor teams in assessing the company's financial health and whether it is appropriate to join AIM.

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It is important to note that this report is not in the public domain. In certain circumstances the scope of the long form report may be limited, for example, where the company has no trading record, such as a cash shell company.

Usually the long form report includes;

- Details of the operations of the company
- An insight into the financial reporting systems of the company
- What accounting policies are in place, or have been in place
- Details of the management team and employees
- A record of the financial performance of the company
- What is the current state of the company with regard taxation

One of the key uses of the report is to clarify the financial or commercial risks and exposures and bring to the surface any major issues that require resolving prior to the AIM flotation.

If major issues are uncovered then it may lead to a delay in the flotation process. Undertaking a comprehensive feasibility exercise using an experienced flotation consultant ahead of the flotation process may prevent such occurrences.

Pathfinder document

In certain cases ahead of the flotation a document, which is in essence the same as the AIM admission document is produced by the company's advisors and circulated approximately 2 weeks before the admission date. This document is designed to act as a barometer of the level of interest amongst institutional investors in the company's proposition and also to help to define the price at which shares will be placed by the Broker on the market.

Company presentations.

During the 2 week period prior to the flotation on AIM, usually the senior members of the board of the company are required to make presentations or 'pitches' to potential investors who have already indicated to the company's broker that they may be willing to buy shares in the company.

Placing proof

The placing proof may be used in circumstances when there may remain some doubt as to the amount of the fundraising or the price at which the companies shares will be sold.

In some cases a company issues a 'placing proof' document. This will usually contain most, not all of the information contained in the AIM Admission Document however it is clearly

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marked as a proofing document. This is given to those that have indicated a willingness to buy the company's shares following a company presentation or receipt of a pathfinder document.

Ahead of the admission to AIM

The company issues a statement of its intention to seek admission to AIM ten business days before the proposed admission date. For companies transferring from other global markets that are regarded as 'AIM Designated Markets', 20 business days notice is required.

The day of the AIM flotation

The day of the flotation is often known as the impact day. The day prior to this, a completion meeting will be arranged. At this meeting all documents will be signed by the directors of the company and they will take responsibility for the contents of the AIM admission document.

The Admission document is printed overnight and on the admission day it is sent to shareholders and other interested parties.

Placing

With an institutional placing, admission to AIM will happen within 2 weeks of the Impact Day. In some cases the process takes a further 2 or 3 weeks after the date of admission.

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10. AIM Advisors

The team of AIM advisers will be important in supporting your company throughout the flotation process, and once admitted to AIM. The flotation consultant will ensure that selected firms that have appropriate sector and market experience and are committed to working with you after admission.

The Broker

Under the AIM Rules, every AIM company must retain a broker at all times. Their role is to;

- initially assess the level of investor interest in your company's shares at the time of admission to AIM, and in any further fundraisings
- provide on-going advice on market and trading related matters
- advise on the pricing of shares and investment opportunities

The broker will often have its own institutional research department which is responsible for producing research on companies which provides investors with analysis of the company and its assets. Alternatively, analyst research can be written by a firm independent of the company but paid for by the company. Analyst research is a valuable tool in raising investor awareness and can be published at admission and on an on-going basis.

Improving the information flow about your business to investors is key to ensuring a greater understanding of your company's activities, strategy and future prospects and can have a positive impact on liquidity and share price performance.

The Nomad

Will assess the company and its directors and could be an accountancy firm or an investments bank. They will undertake due diligence on the company, oversee the preparation of the AIM admission document and confirm to The London Stock Exchange that a company is suitable for AIM. They will also act as a regulator on behalf of the London Stock Exchange to ensure that a company fulfils its obligations under the AIM Stock Market rules.

Market makers

Market makers are in many ways 'wholesalers' of shares and are responsible for ensuring that there is always a two-way price in the shares in which they are registered as market maker. They play an important role in the secondary market as providers of liquidity, ensuring investors have efficient means for buying and selling a company's security.

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The reporting accountant

The reporting accountant's role will include reviewing and reporting on several key aspects of your company including its financial position, reporting procedures, and the disclosure of historical financial information. It is the reporting accountant's role to raise potential problems early on in the AIM flotation process so that they can be addressed quickly without delaying the process.

The Lawyers

During the flotation process, the law firm will advise on the structuring of the company and its subsidiaries, and undertake the following key tasks:

- Legal due diligence on the business
- Verification of the ownership of assets
- Support with the drafting of the AIM admission document
- Preparing employment agreements for directors and other key staff
- Advise the company's directors on their responsibilities in accordance with the AIM Rules
- Provide advice on the legal aspects of the flotation process and the continuing obligations

The Financial PR firm

Your chosen financial PR firm will provide support in designing and implementing a communications strategy. This will ensure that your company leverages the opportunities for communication with a variety of interested parties about the company. The PR firm will work closely with your other advisers in producing the institutional road show presentation which will form the basis for the face-to-face meetings with investors during the road show.

Registrar

Although it is not a specific requirement in the AIM Rules, a company will normally appoint a Registrar in order to maintain and keep the register of shareholders up to date.

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11. AIM Stock Market Investors

What are AIM investors looking for in your company?

To a large extent, a company's attractiveness to potential AIM company investors will depend on:

- The perceived strength of the senior management team
- Whether the company has the potential to become a significant player in its business sector
- The overall scalability of the business
- To what extent the company is subject to market forces that are beyond its control
- The over dependence on a limited number of customers or suppliers
- The barriers to entry which exist in the company's business sector

Corporate structure

Because AIM investors prefer to be able to understand how companies operate and are managed, it is advisable to have a simple and straightforward company structure which can be easily communicated and which potential AIM company investors can understand. It is also preferable to have one class of shares and a simple staff share option scheme.

Staff

If at all possible, it is advisable that the employment contracts of the staff should be standardised. In addition, it is often beneficial for members of the senior management team or for key employees to have notice periods which provide the company with a safety net should they decide to leave the company. Key man insurance policies can be very useful in this regard.

The importance of good Management

One of the most important criteria used by AIM Stock Market investors to judge whether they will invest in your company is their perception of the quality of your management team. Your company's commercial success and innovation to date may indicate a capable management team.

Often characteristics which AIM investors will look for within the management team include;

- A recognisable management structure with clear defined roles
- Reporting systems in place which produce key management information

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- Previous experience in the business sector
- Appropriate Non-Executive Directors that bring experience to the board and can enhance AIM investor's perception of strength of the company's board.

The importance of Non-executive Directors

The appointment of Non-Executive Directors should not be underestimated. They can potentially fulfil an important role, by bringing independent unbiased experienced to a company's board. In some cases they may have the ability and contacts to open new doors to business opportunities for a company, or a track record of dealing with the city.

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12. AIM Stock Market rules

The AIM Stock Market is a market regulated by the London Stock Exchange. Companies who join AIM are required to comply with the AIM Rules which are published by The London Stock Exchange. Once a company has joined AIM it is obliged to comply with the continuing obligations set out in the AIM Rules.

The London Stock Exchange designed AIM specifically for young and growing companies and therefore the rules relating to AIM are relatively easy to understand. When compared with The London Stock Exchanges other stock market 'The Main Market' the AIM rules are significantly shorter and less prescriptive.

The London Stock Exchange has the power to impose sanctions on an AIM company for failure to comply with the AIM Rules. Usually first or minor discretions are dealt with by The London Stock Exchanges AIM team issuing a company with a warning notice. For repeat or serious breaches of the AIM rules the AIM team have the authority to fine or censure a company. In very extreme cases they can cancel a company's AIM securities.

In addition to complying with the AIM Rules, any company joining the market must also comply with the UK legal requirements for offers of securities and the restrictions on financial promotions which are contained within the Financial Services and Markets Act 2000.

For companies outside the UK there may be a requirement for the company to comply with the laws covering the sale of securities in its country of origin.

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13. The costs of joining AIM

The costs associate with floating on The AIM Stock Market can vary considerably from company to company depending on a number of factors such as;

- Your company's preferred route to market (introduction, placement, IPO or reverse into an AIM cash sell)
- The amount of funding your company is looking to raise
- How prepared your business and management team are to commence the flotation process
- Your ability to negotiate sensible fees from AIM advisors that are engaged in supporting the company's flotation and fundraising (flotation consultants can help with this process)
- The costs associated with recruiting additional Executive, and Non-executives to your company's board (if required)

For many company's the costs of undertaking an AIM flotation may be prohibitive as the company may have not yet built up a sufficiently strong balance sheet to pay for the cost of the flotation.

How the costs of joining AIM can be managed

In many cases smaller growing companies raise additional funding over and above that required for their business growth to pay some or all of the costs of the flotation. In addition many companies agree with their AIM advisor teams to back end load fees until the fundraising is completed so as not to have a detrimental impact on the company's working capital.

It is not unusual for companies to engage with certain advisors or brokers on a contingency basis whereby their fees, or a proportion of fees, become due once the company has successfully floated on AIM and the required funds have been raised.

As a general rule, the total costs of the flotation should not exceed 10% of the money raised by the company.

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14. Life as an AIM company

The importance of research

One of the most important areas of communication with the market following flotation market will be the research provided by the company's broker. The Brokers research analyst will publish notes in reaction to company news. Investors and potential investors will want to track the company's progress.

The flow of regular news enables the analyst to adjust their forecasts and recommendations accordingly, which allows investors to assess the company and its existing and future performance.

Sales

The broker's sales team circulates the house research notes and ensures continued dialogue with existing investors. It will also have meetings with the company's management team on a regular basis to ensure it keeps up to date with corporate developments.

Further fundraisings

The AIM Stock Market has demonstrated that even though the most challenging economic conditions in recent years, its ability to provide continued access to equity capital for companies once they have joined the market. Indeed AIM's flexible regulatory environment is designed to make further fundraisings as straight forward as possible.

Communicating with investors

The potential audience to whom a company may wish to communicate with is considerable and goes beyond existing or potential investors. For example, your company may wish to communicate key messages about the company to customers or, suppliers, opinion formers, or the media.

Since the growth of the internet message boards and blogs have become important sources of information for AIM investors and therefore regular clear communication has become even more important.

Having a clear communications strategy both pre and post float is important. Pre-float there may be little flexibility once the intention to float announcement is released to the market.

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Often a Financial PR firm is appointed ahead of the flotation to begin to raise the awareness of the business while keeping within the guidelines of AIM regulation.

It is important that AIM companies maintain a proactive Investor relations strategy throughout the time they are listed on The AIM Stock Market. The key objective of an Investor relations strategy is to ensure that value of the company and its operations is fairly reflected in its share price.

A Financial PR firm will look to create a following of AIM analysts and also private client stockbroker. News flow is key in this regard as are site visits which may help to maintain the profile of the company amongst investor audiences

The on-going obligations of AIM

Following flotation, the company will be subject to the same set of continuing obligations set out in the AIM Stock Market Rules. 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 which 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 a 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

Annual accounts

A company admitted to AIM via a reverse transaction into a cash shell must publish annual 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.

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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 directors and applicable employees need to consider 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.

Retention of a Broker/ Nomad

AIM companies are required to retain a Broker and Nomad at all times. Companies are permitted to retain more than one Broker if they wish, and this decision make be influenced by the size of the company and the value of shares that it has on the market.

Transferability and settlement

AIM companies must ensure that their shares are freely transferable and that the appropriate settlement arrangements have been put in place. In addition, AIM securities must be eligible for electronic settlement unless otherwise agreed with the London Stock Exchange. In practise these are straightforward tasks that the company's advisor teams will undertake with little involvement required by the company.

Announcements

One of the key on-going requirements for AIM companies is to disclose certain information to the market in a timely manner. This is one of the key obligations which sets an AIM Stock Market company apart from a company that remains in private hands.

Information is released to the market via a regulatory information service known as ('RIS'). RIS announcements area considered to be purely regulatory, they are not to be used to generate investor interest in the company. Your company's advisor teams will usually prepare these announcements on your behalf with information supplied by your company, and check that they comply with the AIM rules prior to realising them to the market.

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Price-sensitive information

AIM Stock Market companies are required to issue notification of major new developments regarding changes in their financial condition, or activity and performance of their business which would be likely to lead to a substantial movement in share price. Usually an assessment of the requirement to make these announcements is made after consultation with the company's advisors.

Announcement of share dealings

Companies on AIM are required to announce dealings by directors and any relevant changes to the holdings of significant shareholders (holders of 3 per cent or more of the shares). AIM company directors will invariably take advice from their company's advisors before any form of dealing in the shares of the company.

Other announcements

An AIM company is also required to announce changes to its board, its year end, registered office or company name.

Transactions

Often the requirement to announce to the market transactions undertaken by an AIM company will vary depending on the size and nature of the transaction. Advisors will consider this by applying the required class tests found in Schedule 3 of the AIM Rules.

Corporate Governance

The Corporate Governance code is kept under review by the Financial Reporting Council. Compliance with the Code is voluntary for AIM companies. Compliance with the Code by AIM companies is, however, widely regarded as good practice and has become expected of larger AIM companies. Many investing institutions expect AIM companies to either comply with the Code or set out the reasons for non-compliance.

How AIM companies comply with the code

For the majority of AIM companies, the costs of full compliance with the Code outweighs the benefits to their shareholders. Some AIM companies are unable to comply with all of the terms of the Code, perhaps because they are too small or at an early stage in their development and do not yet have the breadth of management teams in place to fully comply. Organisations such as the Quoted Companies Alliance (QCA) and the National Association of Pension Funds produced their own guidelines to help AIM companies focus on the best way to achieve Code compliance for their own particular set of circumstances.

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Both Corporate Governance guides are based on the provisions of the Code and are generally accepted by AIM investors as satisfactory guides to the extent to which each AIM company should assess and comply with the provisions of the code.

Website disclosures

Under Rule 26 of The AIM Stock Market rules, an AIM company must maintain an up to-date website and include key information on the company such as:

- a description of its business names and biographical details of the directors
- copies of certain company documents
- the company's latest admission document
- The company's recent half yearly and annual accounts
- all notifications released in the last 12 months
- The identity and percentage holding of significant shareholders

The Key areas of Corporate Governance for AIM Stock Market companies

The company's board

The key requirement is to ensure that your company's board is sufficiently independent, effective and has the skills and experience to enable it to deal effectively with your companys affairs. The guidelines published by the QCA clearly state the key features of governance which are regarded as helping your company board operate efficiently, but also in a commercial way which does not distract from the entrepreneurial ethos required to manage a growing successful and profitable company The key areas that are identified are as follows.

Committees

The board of an AIM company should establish, maintain and review the terms of reference of an audit committee, a remuneration committee and, less commonly, a nominations committee.

An AIM Stock market companys audit committee should comprise of at least two members and all the members should be independent Non-Executive directors. The terms of reference of the committee will include;

- monitoring, alongside the auditors, the integrity of the financial statements, company announcements regarding performance and financial reporting judgments
- reviewing the internal controls of the company

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- reviewing the internal audit function, if any, or considering whether one should be created
- making recommendations regarding the appointment, reappointment and remuneration of the external auditor monitoring the performance and independence of the external auditor
- developing and implementing the policy for using the external auditor for services other than audit services, bearing in mind relevant ethical guidance, and reviewing the whistleblowing policy

The Remuneration committee

The remuneration committee should comprise at least two members.

The Nominations Committee

Recommendations to the company's board regarding new board appointments should be made by the companys nominations committee, if an AIM company has one. The nominations committee include the whole of the company's board although if this is the case the majority of its members should be independent non-executives. In practise, few AIM companies actually have established Nominations committees.

Disclosure

An AIM company's annual report should include a statement of how the company achieves a satisfactory standard of corporate governance. AIM companies undertake a formal review of how they have complied with the principles of corporate governance. The AIM rules for companies require they publish or make available on their company website, details of the terms and conditions of the appointment of non-executive directors, terms of reference of the audit committee, remuneration committee and nominations committee, if they have one.

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15. Non UK AIM Companies

The AIM Stock Market is appealing to many non UK companies. Since its launch in 1995 AIM has attracted over 500 companies incorporated outside the UK. In recent years there has been a steady flow of companies joining AIM from the emerging markets in Asia Pacific, India and Eastern Europe. Also AIM companies from Australia and Canada feature on the market.

AIM companies are not required to be incorporated in the UK or in any other specified jurisdiction. Non-UK companies joining AIM are subject to identical eligibility requirements within the AIM rules as those companies incorporated in the UK.

Those companies that have joined AIM from non-UK countries are also subject to the same continuing obligations under the AIM Rules as apply to UK companies. If a company is dual listed then a non UK company must make announcements to both the markets simultaneously.

Non UK AIM companies must publish annual audited accounts in accordance with International Accounting Standards or if they are non EEA companies, in accordance with the equivalent standards, such as US GAAP, or Australian IFRS. All the documents prepared by the company and its advisors in accordance with the AIM rules must be written in English, or alternatively have an English translation provided.

Companies are required to engage lawyers in the country where the company is incorporated. These lawyers will work together with the company's UK lawyers to advise the directors of the company on due diligence and verification of information in the company's AIM Stock Market admission document.

AIM Designated Markets

The London Stock Exchange has introduced rules that make it possible for some companies that already have their shares traded on certain other overseas stock exchanges and that are considered 'AIM Designated Market' to join The AIM Stock Market on a fast track process.

Although a full AIM admission document is not required for these companies, other information must be prepared and provided to the London Stock Exchanges AIM Regulation Team speak for them to assess whether a company is able to take advantage of this route to AIM.

The fast track route is available if a company already has securities admitted to trading on an AIM Designated Market (ADM) top tier markets of:

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- Australian Securities Exchange
- Deutsche Börse Group
- Johannesburg Stock Exchange
- NASDAQ
- NYSE
- NYSE Euronext
- NASDAQ OMX Stockholm
- Swiss Exchange
- TMX Group
- UKLA Official List

Financial reporting

An AIM company will be required to produce both half yearly reports and annual accounts, respectively.

Half-yearly reports

Half-yearly reports (or interims) are required to be notified without delay and not later than three months after the end of the relevant six-month period. While the form of the interims must be consistent with the annual report, the required information includes just a balance sheet, an income statement, and a cash flow statement and must contain the prior year comparative figures. These figures need not be audited.

Annual accounts

The annual accounts must be published by an AIM Stock Market company and sent to shareholders not later than six months after the end of the period to which they relate. The accounts must be prepared in accordance with International Accounting Standards if the company is incorporated in an EEA country, unless the company is not a parent company, in which case it can prepare its accounts in accordance with the accounting and company legislation and regulations from its country of incorporation. A company incorporated in a

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non-EEA country must prepare its accounts in accordance with IAS or to prescribed GAAP standards.

The accounts produced must also contain details of any transaction with a related party, even if it has been previously disclosed, where any of the class tests exceed just 0.25 per cent. The identity of the related party and the consideration for the transaction must be disclosed.

In addition, details of directors' remuneration must also be disclosed for the past financial year, including payments such as salaries, share options, non-cash benefits and contributions to pension's schemes.

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16. Frequently asked AIM questions

Q. Will my company be required to undertake a fundraising when joining AIM?

A. Many companies join AIM via an introduction and do not undertake raising funds at the time of flotation. For example, some join in order to get an enhanced valuation for their company. Companies may use AIM to significantly raise their profile to various constituent groups including customers, suppliers and the media. Other companies may already have a strong balance sheet, and require to raise funds on AIM at some stage in the future.

Q. How long will it take to float on The AIM Stock Market?

A. Typically companies float between three and six months of deciding to proceed with a flotation following undertaking the feasibility stage. However it is important to bear in mind that every company is different and the actual AIM flotation timetable may depend on how much preparatory work has been carried out by the company and flotation consultant in advance of the flotation process.

Q. I'm considering an AIM flotation for my company, what is the first thing I should do?

A. Firstly contact an AIM Stock Market expert such as a flotation consultant and discuss your requirements with them. They will need to know what your business is, how it intends to grow and how much funding you are likely to require if you decide to join AIM. They will also need to understand how the cash generated by an AIM flotation will be used and what will be the impact on your business and generating future revenues. Often it is helpful to send them your business plan if you have one so that they are able to make an initial assessment of your company and its potential suitability for AIM. If they feel that flotation is potentially an option for your company they will then guide you on the next steps you need to take.

Q. Will being listed on The AIM Stock Market change the way we are able to manage the company?

A. Joining AIM does not alter your right to manage the business in the way that you feel is appropriate. Joining AIM therefore may be considered a less intrusive process than may be the case when seeking Venture Capital funding.

Q. Does the UK Corporate Governance Code apply to AIM stock market Companies?

A. No. The UK Corporate Governance Code does not apply to companies on AIM. However potential investors will expect to see your company adopt some of the best practice principles and provisions set out in the UK Corporate Governance Code.

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Q. Once on AIM will the company require shareholder approval for acquisitions?

A. No. Normally your company will just be required to make an announcement to the market. If however the acquisition is a reverse takeover then shareholder approval will be required.

Q. Will the company need shareholder approval for disposals?

A. No. Shareholder approval will only be required for any disposal which is treated as a disposal resulting in a fundamental change of business.

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GLOSSARY OF AIM 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 which 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 Exchanges 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.

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

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

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.

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.

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

Class tests - tests set out in the London Stock Exchanges AIM Rules for Companies which 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.

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).

Depositary 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 which 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.

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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.

Flotation - when a company's shares are admitted to trading on a Stock Exchange.

Free float - the amount of shares in a company which 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.

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.

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

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 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.

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

Market Maker - a securities firm which 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 flotation's 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 which 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.

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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 may not be paid unless the fixed dividends on preference shares is 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.

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.

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

Private company - a company which 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.

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.

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 listing 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.

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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 take 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.

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

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.

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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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Holland Bendelow are the UK's leading flotation consultancy, with a successful track record of advising UK and International companies about stock market flotation.

We specialise in advising the directors and owners of privately owned pre-float companies considering floating their companies on any of the UK stock markets, including, The AIM Stock Market, ICAP–ISDX, The London Stock Exchanges Main Market, Assetmatch and GXG.

For further information about joining AIM, or to arrange a confidential consultation please contact Holland Bendelow: +44 (0)845 1223415 or visit www.hbcg.co.uk

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