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AIM JOURNAL

Nothing to fear from Standard listing

Fears that the new two tier listing regime for the Official List may lead to an exodus of companies from AIM look overdone.

The FSA is splitting the Official List into two tiers: Premium and Standard (see page 9). International companies have been able to gain a listing in London under a separate segment in the market to the UK companies' primary listing. This has been formalised by splitting the market into two and allowing UK companies the chance to join the renamed Standard listing.

The attractions of the new Standard Listing to AIM companies appear limited. "I can't see there being a stampede from AIM", says Philip Lamb, a corporate partner at lawyers Lewis Silkin. He believes that AIM gives as much protection as a Standard listing. There is little difference between the information provided by companies on either market. In fact, there is no requirement for a 12-month working capital statement when companies join the Standard listing.

Only Premium-listed companies are eligible for inclusion in the FTSE indices.

China launches AIM equivalent

Growing Chinese companies are likely to look towards their local stock markets rather than overseas markets, according to the chief investment officer of AIM-quoted Yangtze China Investment Ltd. "Money is there for these companies to tap", says Steven Feng.

Feng points to the new Growth Enterprise Market in China, a Nasdaq-style market that was launched in the middle of September. The China Securities Regulatory Commission approved an initial list of seven companies for a flotation on GEM. They want to raise more than $300m between them. The companies are involved in a range of sectors, including software, medical, leisure and renewable energy.

"Companies will go back to the local market because transaction costs will be lower and there will be no need to translate the documents", says Feng. He reckons that the restructuring required by a Chinese company in order to float on AIM or another overseas market can cost around $200,000.

Feng also points out there has been a lot of interest in the new market and valuations appear to be high. One of Yangtze's investments, beauty spa franchisor Aesthetic International Holdings Group Ltd, may consider floating in the near future and GEM is one alternative.

The flow of Chinese companies to AIM has already fallen off sharply and many that did join AIM have left. However, Tim Metcalfe, joint head of corporate finance at Hanson Westhouse, says "it still makes sense for some to come to international markets" and his firm is working on a potential Chinese flotation on AIM.

In this issue

general news

Resaca exploits AIM quote to buy NYSE Amex-listed rival

US oil and gas producer Resaca Exploitation Inc is using its Aim quotation to acquire NYSE Amex-listed Cano Petroleum Inc.

Resaca is offering 2.1 of its shares for each Cano share. Shareholders in each of the companies will own roughly 50% of the enlarged entity but Resaca's experienced management team will be in charge and the AIM-quoted company will provide four of the seven board members. Cano's chief executive and finance director are leaving.

Resaca intends to gain a listing on NYSE Amex when the transaction is complete. Resaca chose to acquire Cano rather than reverse into the NYSE Amex-listed company. Resaca vice-chairman Jay Lendrum believes that a "reverse would send out the wrong message". He adds that Resaca has a "tremendous UK shareholder following" and emphasises that Resaca is committed to AIM because of this. He does believe that some UK institutions may be more likely to invest when the company has a NYSE Amex-listing.

The deal will quadruple Resaca's proven reserves to 63.2MMboe and they have an estimated value of $653m - based on an oil price of just under $70/barrel. Each barrel of proven oil equivalent is valued at $3.34. A large percentage of Cano's reserves are undeveloped.

At the start of this year the group's total production was just short of 2,000 barrels of oil equivalent per day. Lendrum says that should rise to 3,000 barrels of oil equivalent per day by the end of 2010. Resaca should also be able to achieve annualised cost savings of up to $5m. The combined group should make EBITDA profits of at least $12m next year.

It will take up to five months to complete the merger. The owners of the preferred stock in Cano have to agree the deal and debt will need to be restructured. A share issue is likely at the turn of the year.

Songbird's refinancing boost

Canary Wharf-owner Songbird Estates has completed the largest property company fund raising in 2009. The issue of ordinary and preference shares raised a total of £895m for the AIM-quoted property investor. This will enable it to buy back debt and repurchase Commerzbank's 8.45% stake in Canary Wharf.

This financing is raising more on its own than has been raised by secondary issues on AIM in any previous month this year.

The placing and 98.32-for-one open offer at 1p a share raised £620m. The preference share issue will generate a further £275m. Songbird has also arranged a £135m credit facility. The costs of the fundraising are £35m.

The existing share capital of Songbird is worth less than £5m so this share issue is highly dilutive.

The existing bank facilities matured in May 2010 and there was a danger that Songbird might breach its covenants. Songbird is repurchasing the Citibank loan for £837m – a 5% discount - and paying Commerzbank £113m for its stake in Canary Wharf.

Bid activity on the rise

New issues activity may be in short supply but there continues to be a steady flow of takeover bids for AIM companies. The £584m cash bid by Eurasian Natural Resources Corporation for Africa-based minerals explorer Central African Mining & Exploration Company (CAMEC) is one of the biggest for some time. Eurasian has already secured more than 50% of the shares.

The cleantech sector appears to be attracting an increasing degree of bid interest. There is currently a bid battle for carbon trader EcoSecurities. Carbon Acquisition Company, a subsidiary of JPMorgan Chase, is offering 105p a share in cash, which values EcoSecurities at £129m. This bid has been recommended by the EcoSecurities board. Guanabara Holdings had previously offered 90p a share in cash, having initially bid 77p a share. Guanabara and its partner EDF Trading are undertaking due diligence on EcoSecurities and the outcome of this may determine whether or not it makes an increased bid.

Wind power assets developer Novera has rejected a £90.5m mandatory bid from its largest shareholder Infinis Energy. Infinis owned 29.6% of Novera, which had mainly been acquired at 90p a share, and acquired a further 13% at 62.5p a share thereby triggering the bid.

KBC Peel Hunt believes that the underlying assets of Novera are worth 70p with the development pipeline worth a further 14p a share. Adding on some benefit for potential synergies between the two companies, the broker believes that a fair value for Novera is 98p a share.

advisors

Daniel Stewart seeks Prime finance

Broker **Daniel Stewart Securities** plans to raise £2.31m at 2.1p a share from a Middle East investment bank. Cairo-based Prime Group has four offices in Egypt and the Middle East. Daniel Stewart hopes that this deal will enable it to access the Gulf Cooperation Council and North African markets. Prime, which could end up with a 26% stake, still has to undertake due diligence before the placing is finalised. The new investor will be represented on the board.

Daniel Stewart shareholders passed the AGM resolution to enable additional shares to be issued but there has been no more news on the proposed placing since its announcement in the first half of September.

Former Hichens Harrison boss Adam Wilson has joined Daniel Stewart as a non-executive director.

Wilson owns 9.76% of the AIM adviser and should be able to help with potential business from the Middle East.

Daniel Stewart continues to lose money. Revenues slumped from £8.37m to £4.38m, while the loss increased from £2.01m to £2.65m in the year to March 2009. Share trading losses were reduced and there was no repeat of the previous year's £1m bonus.

There was £1.16m in the bank at the end of March 2009 and this had risen to £2m by the beginning of September. That is due to the fact that Daniel Stewart raised £1m from a share placing in June.

Daniel Stewart chief executive Peter Shea bought 350,000 shares at 2.875p a share on 2 September. That took his pre-placing stake to 14.58%.

ADVISER CHANGES - SEPTEMBER 2009

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Daniel Stewart Securities	Astaire	Astaire	Arbuthnot	Astaire	01/09/2009
RAB Capital	Fox-Pitt, Kelton	KBC Peel Hunt	Fox-Pitt, Kelton	KBC Peel Hunt	01/09/2009
Plant Impact	Hybridan/Religare Hichens	Religare Hichens Harrison	Blomfield	Blomfield	01/09/2009
T2 Income Fund Ltd	Singer	JPMorgan Cazenove	Grant Thornton	Grant Thornton	01/09/2009
RAB Special Situations Ltd	Fairfax IS	KBC Peel Hunt/Winterfloods	Fairfax IS	KBC Peel Hunt	04/09/2009
Lithic Metals & Energy	Seymour Pierce	WH Ireland	Seymour Pierce	WH Ireland	04/09/2009
Solo Oil	Rivington Street/Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	Beaumont Cornish	07/09/2009
Healthcare Enterprise Group	Rivington Street/Daniel Stewart	Daniel Stewart	Daniel Stewart	Daniel Stewart	07/09/2009
Mortice Ltd	Seymour Pierce	Jermyn Capital Partners	Grant Thornton	Grant Thornton	07/09/2009
LP Hill	Falcon Securities	Falcon Securities	Strand Partners	Beumont Cornish	09/09/2009
HML Holdings	FinnCap	Daniel Stewart	FinnCap	Daniel Stewart	10/09/2009
ReNeuron Group	Daniel Stewart/Matrix	Collins Stewart	Daniel Stewart	Collins Stewart	14/09/2009
XI Century Investments	KBC Peel Hunt/ING	KBC Peel Hunt/ING	Strand Partners	ING	15/09/2009
Artisan (UK)	Altium	Brewin Dolphin	Altium	Brewin Dolphin	17/09/2009
Cleardebt Group	Seymour Pierce	St Helen's	Seymour Pierce	WH Ireland	17/09/2009
Redstone	FinnCap	Investec	FinnCap	Investec	17/09/2009
Venue Solutions	John East	Arden	John East	Arden	18/09/2009
Urals Energy	Allenby	Morgan Stanley	Allenby	Morgan Stanley	18/09/2009
Northern Bear	Rivington Street	St Helen's	Strand Partners	Strand Partners	18/09/2009
Formjet	Shore Capital	Dowgate	Shore Capital	Dowgate	18/09/2009
Brainspark	Allenby	Beaumont Cornish	Allenby	Beaumont Cornish	18/09/2009
BPC Ltd	Novus/Fox Davies	Novus/Fox Davies	Strand Partners	Ambrian	21/09/2009
Telit Communications	Astaire	Seymour Pierce	Astaire	Seymour Pierce	22/09/2009
Mecury Recycling	Smith & Williamson	Astaire	Smith & Williamson	Astaire	22/09/2009
Platmin Ltd	GMP Securities/RBC	GMP Securities/RBC	Investec	Grant Thornton	22/09/2009
Obtala Resources	Fox-Davies	Fox-Davies/ZAI	ZAI	ZAI	23/09/2009
Motive Television	Throgmorton Street	Dowgate	Dowgate	Dowgate	24/09/2009
LitComp	Seymour Pierce	Daniel Stewart	Seymour Pierce	Daniel Stewart	24/09/2009
Baobab Resources	Astaire	Fox-Davies	Grant Thornton	Grant Thornton	24/09/2009
RedHot Media International Ltd	Allenby/Religare Hichens	Religare Hichens Harrison	Allenby	Blomfield	24/09/2009
Creat Resources	Hanson Westhouse	Alexander David	Grant Thornton	Grant Thornton	24/09/2009
Westminster Group	Seymour Pierce	FinnCap	Seymour Pierce	FinnCap	25/09/2009
Rurelec	Ambrian/Religare Hichens	Religare Hichens Harrison	Daniel Stewart	Daniel Stewart	25/09/2009
ClearStream Technologies Ltd	FinnCap	Arden	FinnCap	Arden	28/09/2009
Futura Medical	Nomura Code	Canaccord Adams	Nomura Code	Canaccord Adams	28/09/2009
Valiant Petroleum	Oriel/RBS Hoare Govett	Oriel/Tristone	Oriel	Oriel	29/09/2009
Kalahari Minerals	Ambrian/Mirabaud	Ambrian/Mirabaud	Strand Partners	Astaire	30/09/2009
Leed Petroleum	Brewin Dolphin/Matrix	Matrix	Matrix	Matrix	30/09/2009
Equest Balkan Properties	Arbuthnot	Arbuthnot/KBC Peel Hunt	Arbuthnot	KBC Peel Hunt	30/09/2009

company news

Gulf Keystone set to reap benefits of "well of the year"

Oil and gas explorer *www.gulfkeystone.com*

Middle East-focused oil and gas explorer **Gulf Keystone Petroleum** continues to report more good news following the announcement of a massive oil discovery at the Shaikan-1 exploration well in Kurdistan.

The Shaikan-1 well is a part of a 50/50 joint venture between Gulf Keystone and private Middle East company ETAMIC. In August, the initial estimate of oil in place was between 300m and 500m barrels of oil. This estimate has been increased to 2bn to 4bn barrels of oil.

Broker Hanson Westhouse believes that Shaikan-1 must be a contender for well of the year

Broker Hanson Westhouse believes that the Shaikan-1 well must be a contender for well of the year. The broker says that the figures achieved by the well were impressive from the start and drilling is still not complete.

Hanson Westhouse cautions that "commercial development of any field in Kurdistan is dependent on agreement between the Kurdistan regional government and the Iraqi central government on export of the oil through the pipeline system and split of revenues".

GULF KEYSTONE PETROLEUM (GKP)	82.25p		
12 MONTH CHANGE %	+ 278.2	MARKET CAP £M	393.7

The Shaikan-1 discovery made Gulf Keystone the most traded share on AIM during August. There were more Gulf Keystone shares traded than are in issue. Trading has continued to be strong since then.

Gulf Keystone had cash in the bank of $16.7m at the end of June 2009. Further drilling will have reduced the cash.

Corac appoints new chief executive

Engineering and technology *www.corac.co.uk*

Corac has appointed Phil Cartmell as chief executive, which suggests that the compressed air technology developer is getting nearer to generating revenues from sales of its products.

Cartmell was chief executive of space technology company Vega before it was taken over. More recently he was brought in to sort out Medical Marketing International but disputes with the former chairman made this impossible. Cartmell's experience will boost the Corac management team.

The down hole gas compressor (DGC) operation remains the part the business with the most potential. Corac believes that the DGC can increase the flow rate of gas wells by 30% to 50% and this means that there could be a two year payback on investment. However, delays to a field trial by ENI are holding back progress. The trial is unlikely to start this year. The DGC has been tested internally by Corac but a field trial would add to technical knowledge as well as showing that it can operate in a production environment.

CORAC (CRA)	37p		
12 MONTH CHANGE %	- 14.9	MARKET CAP £M	40.1

Corac raised £4.7m net from a share subscription at 35p a share by M&G Recovery Fund. This follows a £1m fundraising at 13.05p a share earlier in 2009 when the shares were near their low. The pro forma cash position is £7.4m. A joint development agreement with oil services company Baker Hughes provides further development finance.

House broker FinnCap believes that Corac could reach profitability in 2011. If that is the case then Corac should have enough cash for its needs.

Care home focus helps Public Service Properties maintain its NAV

Care home property investor *www.pspiltd.com*

Concentrating on the healthcare sector in the UK and Germany has helped property investor **Public Service Properties Investments** to maintain its net asset value when other property companies have been suffering sharp declines. Even so, PSPI is still trading at a discount to its underlying NAV of nearly 60%.

The NAV, adjusted for goodwill and deferred tax on unrealised gains, is 193.7p a share, against 196.9p a share at the end of 2008. That is after a 4p a share dividend payment in May 2009 so the underlying NAV has grown slightly. An unchanged interim dividend of 2p a share has been declared.

Revenues improved from £7.6m to £9.37m in the six months to June 2009. The write-down on the portfolio valuation was less than 1%. Profits increased from £4.52m to £5.34m.

> PSPI is still trading at a discount to its underlying NAV of nearly 60%.

Revenues are assured by index-linked long-term leases, although there is always a worry that the tenant could get into financial difficulties. There are also longer-term concerns about potential budget cuts and public funding for care home occupants.

UK care homes account for 69% of the value of the portfolio with the German properties accounting for 20%. The rest of the portfolio is in Switzerland and the US. The US properties are post offices and they do not fit in with the core business. However, they provide a good return and, if they were sold, PSPI would need to find an even better investment that it can reinvest the money in.

PUBLIC SERVICE PROPERTIES INVESTMENTS (PSPI)	78.5p		
12 MONTH CHANGE %	+ 9.0	MARKET CAP £M	52.4

Net debt was nearly £148m at the end of June 2009, giving gearing of 145%. Loan to value is currently 54%. The maximum loan to value that PSPI is willing to go to is 70% but in reality it is unlikely to want to go quite as high as that. No property acquisitions have been made so far this year but PSPI has been putting money into refurbishing existing properties. This will help to improve rental income. Enough cash was generated in the first half to cover the period's capital investment.

Given the steady rental income and the apparent stability of the care home market the discount to NAV appears harsh. The high gearing is undoubtedly an important element in the low valuation as is the dependence on European Care as a tenant. The 7.6% dividend yield is an added attraction.

Tax boost for Tenon

Accountants *www.tenongroup.com*

Chief executive Andy Raynor says that **Tenon's** clients will want to do as much as they can to protect their income from the imminent increase in the higher rate of tax to 50%. There is National Insurance on top of that so people will start taking much more notice of tax planning.

TENON (TNO)	57p		
12 MONTH CHANGE %	- 0.4	MARKET CAP £M	109.4

Business recovery is currently the star of the business and it grew its revenues by 41%. Business recovery accounts for just under one-third of total group revenues of £151m in the year to June 2009. Profits before amortisation and exceptionals rose from £16.5m to £17.6m. Profits are expected to improve to around £19m in 2009-10. That puts the shares on just over eight times prospective earnings.

company news

Increased mobile marketing spend boosts Velti

Mobile marketing services *www.velti.com*

Velti continues to grow strongly due to the rapidly developing mobile marketing sector. Velti has strong positions in Europe and the US as well as emerging markets such as China.

The measurability and cost effectiveness of mobile marketing is attracting new users. Research company Netsize estimates that mobile will increase its share of the corporate digital marketing budget from 18% in 2008 to 30% in 2010.

The mobile marketing services provider's interim figures for the six months to June 2009 show a 36% rise in revenues to €21.7m while pre-tax profit jumped 83% to €2.26m. Stripping out foreign exchange movements the profits grew 48% to €2.7m. Existing customers accounted for more than two-thirds of revenues in the first half.

Chinese joint venture CASEE is Google's mobile marketing partner in China

Joint ventures and investments in India and China continue to lose money but they will grow rapidly. The Indian joint venture has already connected up to 10 mobile operators covering 400m consumers. Chinese joint venture CASEE has become Google's mobile marketing partner in China.

The purchase of US-based Ad Infuse will add additional services to the product range, such as ad routing and ad serving technology, and strengthens the US management team. It also brings with it $7m of tax losses. The business lost $10m in 2008 but it should make a much smaller loss in 2009. Integration will be completed in October 2009 with cost savings achieved in 2010.

VELTI (VEL)			165p
12 MONTH CHANGE %	+ 13.0	MARKET CAP £M	61.9

Net debt was €7.6m at the end of June 2009. Cash flow was poor in the first half but Velti expects it to improve. Since then Velti has raised £2.9m from a placing at 160p a share. Velti said that there was strong institutional demand for the new shares.

Velti has appointed Wilson W Cheung as its new finance director. The appointment of Cheung, who joins from Nasdaq-listed semiconductor firm AXT Inc, reflects the increasingly international nature of the business.

Ceramic Fuel Cells eyes higher revenues in 2010

Fuel cell technology developer *www.cfcl.com.au*

An Australian utility is installing **Ceramic Fuel Cells**' BlueGen gas-to-electricity generator in a showcase sustainability home. This will help to show off the technology and boost commercial sales when they start in 2010.

Like its micro-CHP peers CFC was frustrated by the slow progress made by its boiler manufacturing and utility partners. BlueGen, which is the size of a dishwasher, can work with an existing or new boiler and can produce up to 17,000 kilowatt hours of power a year. That is enough electricity to power a home and the surplus can be sold to the grid. CFC is still working with boiler manufacturers who will incorporate the fuel cell technology in their boilers but this will take longer to generate revenues.

CERAMIC FUEL CELLS (CFU)			15.75p
12 MONTH CHANGE %	0.00	MARKET CAP £M	162.2

CFC raised A$32.2m (£16.1m) from a placing and rights issue at 2.2p a share. The share price is now more than 600% higher. There was A$25.5m (£12.8m) cash in the bank at the end of June 2009. CFC has sold all its financial investments since the end of June 2009. They were in the books for A$4.3m (£2.3m) and CFC received A$6.6m (£3.5m) for them.

There will continue to be a cash outflow from operations even if revenues do grow significantly. Even so, CFC has plenty of cash for its immediate needs.

Exchange rate gamble for Gaming VC's yield

Online gaming *www.gamingvc.com*

GAMING VC HOLDINGS	(GVC)
Price	220p
Market Cap £m	68.5
Historic Yield	16.0%
Prospective Yield*	16.6%

*Based on current exchange rate

Dividend

Gaming VC maintained its interim dividend at 20 cents a share and it will be paid on 6 November 2009. This payment is also the same as the final dividend for 2008. This dividend is covered just under 1.3 times by interim earnings per share, which fell from 33.1 cents to 25.5 cents a share. Last year's total dividend of 40 cents a share was covered 1.3 times by earnings per share. An unchanged dividend should still be covered by the lower earnings forecast for this year.

Gaming VC had €20.8m in the bank at the end of June 2009 and this figure should at least be maintained this year - if not increased. The annual dividend costs nearly €12.5m in cash. Gaming VC has shown that it can make small acquisitions and still increase its cash pile after paying the dividend. That suggests that the pay out should be secure.

Exchange rates have an effect on UK shareholders because the dividend in pence changes. For example, although the dividend in Euros is unchanged the payment is currently worth 18.3p a share – at an exchange rate of €1.093/£. Around the time that the previous interim went ex-dividend the exchange rate was roughly €1.26/£ - making

the dividend worth 16p a share. A recovery in sterling against the Euro would hit the dividend received by UK investors.

A planned change in domicile from Luxembourg to Isle of Man means that investors will pay their own tax on the dividend. The switch in domicile should happen before the next final dividend is paid.

Business

Gaming VC is an online gaming company that is expanding away from its original German base. The majority of profit comes from outside of Germany these days with South America likely to be an increasingly important part of the group.

A higher contribution from sports betting partly offset a decline in contribution from gaming. The interim profits fell from €10.5m to €8.1m but the first half outcome was better than the performance in the second half of 2009. South American acquisition Betboo will make a maiden contribution in the second half.

House broker Arbuthnot forecasts profits of €15.2m for 2009, down from €16.9m – after exceptional charges of €1.92m - in 2008. This suggests another small decline in profits in the second half.

Changing domicile to the Isle of Man will enable the shares to be traded through Crest, which should improve their liquidity.

Dividend news

Alliance Pharma shares have risen by 595% to 18.25p each during 2009. Alliance, which buys up well-established, niche drugs, started making significant profits in 2008 and they are increasing rapidly. It is paying a maiden interim dividend of 0.07p a share. That dividend is covered 18 times by the adjusted interim earnings per share. Cash flow is strong because of the mature drug portfolio. Alliance is confident that it can afford a dividend even though borrowings are high. Net debt was £34.3m in August 2009 following the acquisition of nausea treatment Buccastem and skin cream Timodine from Reckitt Benckiser for £7.5m. Most of the debt is from a facility secured on the value of the drugs acquired.

Intelligent Environments is expected to pay a maiden dividend of 0.1p a share for 2009. The online savings and investments applications software provider has gone through a capital reorganisation in order to be able to pay a dividend. The company has £1.05m in the bank and this cash pile is increasing.

UBC Media's capital restructuring has been completed so it can pay dividends or make capital repayments if it decides to. UBC has paid an initial £1.6m in cash for the radio and internet marketing business of Radio Lynx - clients include Coca Cola and Lloyds TSB. That should still leave UBC with approaching £10m in the bank. The business is unlikely to need all this cash so a cash distribution appears likely in the near future.

IT services provider **SciSys** returned to profit in the first half of 2009 and has recommenced dividend payments with an interim of 0.3p a share. Underlying operating profit is expected to improve from £900,000 to £1.3m in the full year.

expert views

Expert view: The broker

Small companies offer geared recovery play

By DAVID BUXTON, head of research

The normal doldrums or upsets that often occur in the stock market during September have only surfaced late in the month. However, the Bull still has the horn and the market has appreciated by 44% from its nadir and over 6% during September.

Small caps tend to offer much greater investment returns in a recovery phase than larger stocks.

Year to date, the performance of Small Cap Stocks has been much more spectacular, but the emphasis here is much more about specific stocks than sector weighting.

In general Small Caps are regarded as a classic geared play on recovery. For various reasons small caps tend to offer much greater investment returns in a recovery phase than larger stocks and share prices tend to move in an accentuated fashion versus their larger peers due to liquidity.

Fund managers should be already overweight this asset class. Lack of liquidity drives prices higher, but the asset class tends to also require additional fund raising to finance their growth, often giving an opportunity for price discounted entry points.

The UK market is already starting to factor in a General Election which will occur over the next 8 months.

The market has seen six months of bull conditions. The real world has lagged behind. It appears that it is only fairly recently that "Joe Public" has started to feel some recovery effects. Mortgage approval rates are improving and the cash for clunkers has had some beneficial effects on car production. Indeed, having seen several manufacturers over recent weeks a mixed picture is emerging, but some evidence is proving positive. In the words of one "since everyone has come back from holiday they have started to return to more normal trading patterns".

The market has seen six months of bull conditions.

Houses and cars are both big ticket items that also benefit from historically low interest rates. Car sales will continue to be boosted from the extension of the cash for clunkers subsidies. The recovery in smaller ticket items such as white and brown goods has been less clear, with high street spending still under pressure.

One year on from the collapse of Lehman's and the introduction of TARP and other central government support mechanisms the talk is now starting to turn on when, and if, these measures can be withdrawn. Perhaps not quite yet would be a sensible answer, but recognising that the cost of these measures will show through to higher taxation: the sooner they are no longer needed the better.

The UK market is already starting to factor in a General Election, which will occur over the next 8 months. The money is on a Conservative win, probably a landslide. All sides are now talking of the c-word, indeed each side now appears to be clamouring for the limelight on their proposals for cuts. As an ongoing drive to improve "efficiency" we believe more government services will be outsourced, accelerating the existing trend. Education spending and defence projects have already been highlighted as an easy target for cuts. Sympathy for troops may shift votes on this issue, whereas we will all rejoice if there are cuts to the army of health & safety, quangos and administrators that has been built up over the last 10 years. The next part of the equation is tax increases, which appear to need to be substantial. Which particular taxes and how they are increased will determine how/if the economic recovery will be dented.

DAVID BUXTON has around 20 years experience in analysis, having covered a variety of sectors, but having concentrated on the industrials, electronic equipment, engineering, defence, automotive components and alternative/green engineering sectors. The companies covered have ranged from large cap stocks through to microcap stocks. David has worked in several broking firms including UBS Warburg, Panmure Gordon, Credit Lyonnais, Durlacher, Daniel Stewart and Henry Cooke Lumsden. Rankings have been achieved, including No1 ranked Small Cap research teams at UBS and Panmure Gordon.

feature

AIM is a much better Standard

The new Standard listing segment of the Official List is not as enticing as some AIM followers feared. In fact, AIM has more attractions and is better policed, than the Standard listing.

The Financial Services Authority has launched a two tier listing regime for the Official List. Prior to its introduction many commentators thought that this could have a significant effect on AIM and might even lead to an exodus of companies. That is because UK companies will be able to gain a Standard listing more easily than they could previously gain a full listing on the London Stock Exchange's Main Market. However, the Standard listing is not as attractive as many people thought it would be.

"I can't see there being a stampede from AIM", says Philip Lamb, a corporate partner at lawyer Lewis Silkin. He can't see what would be the attraction of a Standard listing for UK companies. Lamb describes it as "a strange animal".

Although the full rule changes relating to the two tiers won't be in force until 6 April 2010, the FSA decided to implement the rules on the Standard listing on 6 October 2009.

What is the Standard listing?

Historically, international companies which have a listing on another regulated market have been able to gain a listing in London under a separate segment in the market to the UK companies' primary listing.

Under the new UK listing regime there will be two official tiers for a listing: Premium and Standard. The Premium listing is available to equities in commercial companies, closed ended investment companies and open ended investment companies. The Standard listing is also open to equities in commercial companies, as well as GDRs, debt instruments, securitised derivatives and miscellaneous securities.

Unlike its predecessor, the Standard listing will be available to all companies whether they are international or UK-based. The idea is to provide a level playing field for international and UK companies.

International companies will now have to comply with the EU Company Reporting Directive that requires them to provide additional information. This includes a corporate governance statement and a description of the main features of the company's internal control and risk management systems

> Unlike its predecessor, the Standard listing will be available to all companies whether they are international or UK-based.

Lower standards

Respondents to the original consultation paper pointed out the standards and financial due diligence required for an AIM quotation are much more onerous than for a Standard listing.

Any company seeking an AIM quotation has to provide a 12 month working capital statement but those seeking a Standard listing will not have to do this. The working capital statement gives investors some reassurance that a company has the short-term cash that it requires.

Standard-listed companies will not require a nominated adviser. AIM companies are in regular contact with their nominated adviser, which is able to guide and help them, as well as police what they do.

Philip Lamb believes that an AIM quotation gives at least as much protection as a Standard listing. There is also little difference between the information that has to be provided by companies on either market.

Lamb argues that a company trying to raise cash by obtaining a Standard listing will be asked by potential investors why it is not just going straight for a Premium listing.

FTSE indices

One of the attractions of moving from AIM to the Main Market is the potential to attract new investors. It is unclear whether some institutional investors will have to change their internal rules in terms of what they can invest in to be allowed to invest in Standard-listed companies.

AIM companies can also attract additional interest when they move to the Main Market by becoming eligible for the FTSE indices. Becoming a constituent of the FTSE All-Share or even the FTSE 250 means that tracker funds will have to buy shares.

Only Premium-listed companies are eligible for inclusion in the FTSE indices. The fact that Standard-listed companies will not be able to join one of the indices significantly reduces the attraction of the second listing tier.

Another attraction of AIM is that companies can do larger deals than fully listed ones without having to send out expensively compiled documents to shareholders. It is unclear whether Standard-listed companies have to comply with the same rules in this area as their Premium-listed peers.

AIM to Main Market transfers

There were seven transfers from AIM to the Official List in the first nine months of 2009. These companies tend to see a move from AIM to the Main Market as the next step in the evolution of the business. After all, that is part of the reason why AIM was launched in 1995.

IRF European Finance Investments was the first to make the move in 2009 but it went to the Specialist Fund Market. The SFM is a regulated market for specialist investment funds that want to attract institutional and professional investors rather than small investors.

The other six movers went to the Main Market. Two of these were Bermuda-based insurance and reinsurance businesses Lancashire Holdings and Omega Insurance Holdings. The others were Russian gold miner Peter Hambro Mining, mining investor Golden Prospect Precious Metals, investment company LMS Capital and food distributor Booker Group.

These companies were worth a total of nearly £2.9bn at the dates that they transferred from AIM to the Main Market. Peter Hambro Mining was the biggest of these movers with a market value of £918m when it transferred in April. Lancashire Holdings was not far behind in valuation terms, being worth £863m when it moved in March. Booker was worth £525m when it transferred in July. These companies have obviously reached a point where a Main Market listing could be beneficial.

Only one of the companies was worth less than £100m. Golden Prospect was valued at £13m – and even after an improvement in the share price it is worth less than £17m. Golden Prospect mentioned poor liquidity when it announced that it was making the switch. It also said it would save £35,000 a year by not having a nominated adviser or broker.

However, since the switch there has been little trading in Golden Prospect shares. The month with the most trading was May when the switch was announced. Not having a broker is unlikely to help liquidity.

Small companies tend to get lost on the Main Market. It is bad enough on AIM but there is even less chance of attracting attention when your peers are so much bigger.

It is a fallacy that moving to the Main Market will, in itself, lead to improved liquidity.

"We have always said that unless the company gets in the FTSE 250 it will not make a significant difference if the company moves from AIM to the Main Market", says Tim Metcalfe, the joint head of corporate finance at broker Hanson Westhouse.

Moving tiers

It is likely to be made easy to move between the Premium and Standard listings. However, a company moving downwards from a Premium to a Standard listing will require the approval of its shareholders at a general meeting.

That could mean that AIM companies could move to a Standard listing and then make the move to a Premium listing without additional costs, such as issuing documents. However, it seems a waste of time to move to an interim market if that is not the destination that the company aspires to.

> It is a fallacy that moving to the Main Market will, in itself, lead to improved liquidity.

"I think that any company that is going to move from AIM to the Main Market will move in one jump", says Philip Lamb.

Worries overdone

Hanson Westhouse chief executive Bill Staple says that the broker will show any company it is advising on its flotation the option of the Standard listing but he believes that it is unlikely to be more attractive than AIM.

There may be some companies who feel that a Standard listing will suit them better than an AIM quotation. However, they are likely to be few and far between.

> Only Premium-listed companies are eligible for inclusion in the FTSE indices.

There have been 28 companies that moved from AIM to the Main Market only to return at a later date. If some AIM companies are seduced by a Standard listing they may find that they want to return after a while.

The Financial Services Authority 'Listing regime review' consultation paper can be found at www.fsa.gov.uk/pubs/cp/cp09_24.pdf.
There are still three questions on which the FSA is consulting prior to the full introduction of the new rules on 6 April 2010. Comments on these questions can be sent to the FSA using the form available on www.fsa.gov.uk/Pages/Library/Policy/CP/2009/cp09_24_response.shtml.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	26.1	22.9
Basic Materials	18.4	13.0
Oil & Gas	15.7	8.8
Industrials	12.5	18.9
Consumer Services	8.2	12.8
Technology	6.8	9.6
Consumer Goods	4.6	5.1
Health Care	3.9	6.2
Utilities	2.5	1.2
Telecoms	1.3	1.5

KEY AIM STATISTICS

Total number of AIM companies	1364
Number of nominated advisers	63
Number of market makers	49
Total market cap for all AIM	£51.70bn
Total of new money raised	£62.86bn
Total raised by new issues	£32.64bn
Total raised by secondary issues	£30.22bn
Share turnover value (2009)	£19.08bn
Number of bargains (2009)	£2.66m
Shares traded (2009)	£117.19bn
Transfers to the official list	132

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	632.10	+ 2.7
FTSE AIM 50	2614.36	- 10.8
FTSE AIM 100	2798.72	- 3.9
FTSE Fledgling	3972.69	+ 33.7
FTSE Small Cap	2832.72	+ 15.7
FTSE All-Share	2561.38	+ 3.6
FTSE 100	4988.70	+ 2.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	366
£5m-£10m	223
£10m-£25m	292
£25m-£50m	207
£50m-£100m	134
£100m-£250m	91
£250m+	33

TOP 5 RISERS OVER 30 DAYS

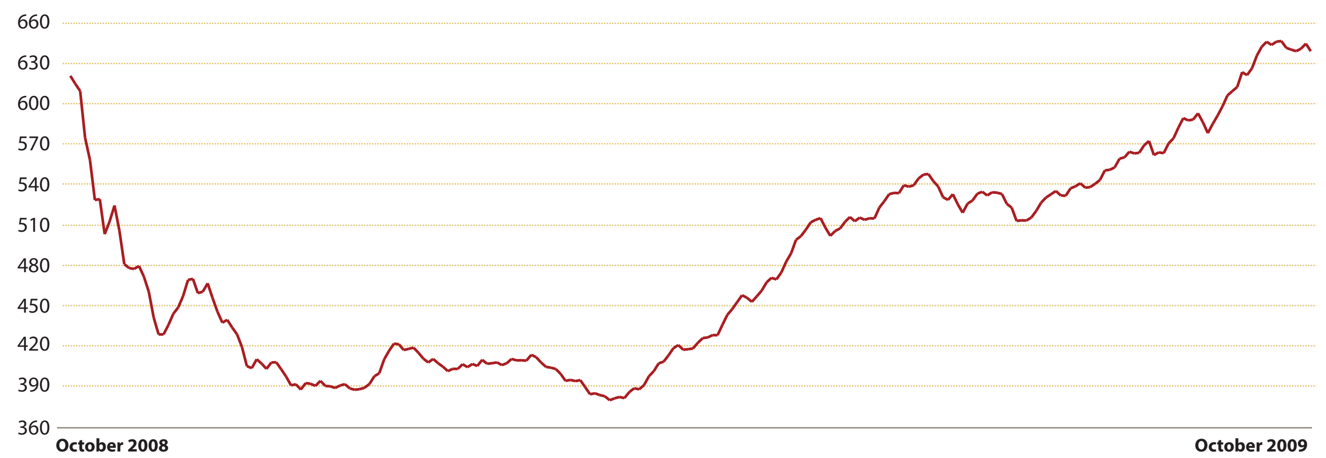
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Chi W t l	R l t t	2	+196.3
Yinggao Holdings	Electricity	1.25	+194.1
Sterling Green	General financial	0.875	+193.3
Sunkar Resources	Mining	40.5	+184.2
Titanium Resources	Mining	10.5	+162.5

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
AMZ Holdings	Travel & leisure	44.5	-65.8
Medic Vision	Health Care	1	-60.0
Consolidated Asset Man	General financial	0.25	-56.5
XCounter	Health Care	7	-46.2
Vyke Communications	Telecoms	10.25	-46.1

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 2nd October 2009, and we cannot accept responsibility for their accuracy.

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finnCap

FinnCap is a client focused institutional broker and corporate advisor, with a strong track record in advising and raising capital, providing research and after-market care for both growing and established smaller companies. The institutional broking team provides a dedicated, bespoke agency broking service to fund managers and private client brokers.

FinnCap employs 39 members of staff and is 50% owned by JM Finn, an independent private client stockbroker founded in 1945. In 2008, FinnCap won 14 new clients and has a total of 60 clients. FinnCap is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In August 2007, JM Finn transferred its corporate finance, research and institutional broking business into a new subsidiary, JMFinn Capital Markets (FinnCap). The management team and employees of FinnCap have taken a significant equity stake in the business, meaning they have made a substantial financial commitment.

About J M Finn & Co

JM Finn is an independent private client stockbroker with approximately £4bn under management as at July 2007. Its 260 staff are based in London, Bristol, Leeds and Suffolk.

JM Finn was founded as a partnership in 1945, incorporated as a private limited company in 2006 and has been a member of the London Stock Exchange for over 60 years.

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