THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET FEBRUARY2009

AIM Bulletin INSIGHT

Call for boost to AIM VCTs

AIM insiders and the London Stock Exchange are calling on the government to use the next Budget to give a major boost to the flagging AIM VCT sector.

The Treasury is being asked to increase the gross asset limit by more than three times to £25m and the employee limit by four times to 200 staff.

Another change sought is for VCTs to be allowed to invest in qualifying companies in the secondary market. Such a move would allow them to counter the sharp fall in most illiquid small company shares if a tiny tranche is put up for sale.

At present, there are no AIM-focused VCT companies attempting to raise money in the current round of venture capital trust fund raisings. With sharp declines in the amount of money raised by AIM VCTs in the past three years, concern is growing that a serious funding gap has appeared at the smaller company end of the market.

The majority of the companies on AIM have a market capitalisation of £25m or less and are finding it increasingly difficult to borrow from the banks.

Chilton Taylor, head of corporate finance at accountant Baker Tilly says: "The 1,000 or so UK companies on AIM employ more than 155,000 people. A couple of adjustments to VCT legislation might help some to survive these troubled times and also spark future opportunities. It should be a no-brainer." (feature see page 9)

New LSE chief raises questions for AIM

Xavier Rolet's appointment as new chief executive of the London Stock Exchange may lead to renewed speculation over the future of AIM, according to small companies lobby group, the Quoted Companies Alliance.

"Any organisation benefits from new leadership, it brings a fresh point of view" says John Pierce, chief executive of the QCA, which boasts many AIM-listed members.

But this fresh point of view could also result in drastic actions. "A new chief executive looks at the business and might decide to concentrate on profitable business," says Pierce. "He might weed out any unprofitable parts of the business and some might argue AIM falls in that category. AIM might be spun off as a separate entity," he says, adding that a takeover bid for the AIM was also a possibility.

However, Pierce is pleased with Rolet's appointment: "His background seems to be running exchanges and has experience, which is good."

Rolet, who will join the LSE board on 16 March and take over from Clara Furse on 20 May, was the former head of Lehman Brothers' French operation. He lost his job after Lehman collapsed in September.

Before Lehman, Rolet held senior equity trading positions at Dresdner Kleinwort, Credit Suisse and Goldman Sachs.

Pierce hopes the experience will enable Rolet to understand AIM: "Hopefully he will leave the AIM market the way it is. AIM has a good structure, and regulation is pitched about right."

Rolet will have to deal with the current tough economic conditions but also increasing competition for the LSE from newly formed trading platforms Chi-X, Turquoise and Nasdaq OMX. (Comment see page 8)

In this issue

general news

Tokyo AIM confirms investors must be worth £2.25m

The new rule book for the Tokyo version of AIM has confirmed that private investors will be required to demonstrate one year's "trading experience" and assets of at least Y300m (£2.25m) before they will be allowed to participate.

The restrictions on private investors were flagged up in the original outline of how the market would operate and designed to emphasise that the Japanese AIM is for professional investors only, a notable difference between Tokyo and London. The LSE said the high barriers to entry were a requirement from the Japanese authorities to get approval.


AIMING HIGHER TOKYO

The new market, which is expected to be launched in June, will be a joint venture between the London Stock Exchange, which owns 49% of the holding company, and the Tokyo Stock Exchange, which owns the rest.

The launch of the market is dependent on the granting of a licence by the Financial Services Agency of Japan. The market will mirror the regulatory set-up in London though no "J-nomads" have been named yet.

Green Dragon's novel cash call

Green Dragon Gas has found a different way of raising $25m from existing shareholders without the need for a long wait to get the cash. Instead of a rights issue the China-focused coal bed methane business is offering existing shareholders the chance to subscribe for as many shares as they wish.

The offer lasts from 23 February to 27 February, so the cash will be received much faster than if a rights issue or open offer had been used. However, all existing shareholders are getting a chance to participate which would not be the case in a firm placing. No shareholder can buy more than $3m worth of shares. Chairman and chief executive Randeep Grewal is subscribing for the maximum number of shares.

The offer is at $3.68 a share, which is above the current market price. The money will be used to repay convertible bonds and provide working capital for the business. Green Dragon is repaying the $13m of outstanding zero coupon convertibles but it will still have $45m of other bonds outstanding. These are convertible at more than twice the current market price of $3/share, which values Green Dragon at $317.69m.

A report from Netherland, Sewell & Associates shows an increase in reserves and resources at the end of December 2008. Proved reserves have increased from 24bcf to 27bcf, while proved plus probable reserves have risen from 253bcf to 258bcf. Further drilling since then should add to the reserves.

Evolution estimates that the proved plus probable reserves have an NPV of just over $1bn.

Goldman Sachs has been appointed to assess strategic options. One of these is a Hong Kong Stock Exchange listing. This could raise the cash that may be required to repay the remaining $45m of bonds.

Biometrics business RCG Holdings gained a Hong Kong listing at the beginning of February and this led to a sharp recovery in the share price. Orange producer Asian Citrus is another Chinese company thinking of getting a Hong Kong listing.

Shareholders vote for KSK liquidation

Shareholders in the KSK Emerging India Energy Fund have voted to wind it up less than one year after it launched on AIM.

KSK floated on 10 June 2008 and the EGM that passed the resolution to voluntarily liquidate the fund was on 22 January 2009 and the AIM quotation cancelled the next day. Shareholders were given the choice of getting part of their investment back or liquidating the whole company and they chose the latter. Grant Thornton has been appointed as liquidator.

KSK raised £101m at 100p a share. The board reckoned that there was 90p a share available to distribute to shareholders but the investment manager is claiming £10m for the management fees that it will lose out on due to the liquidation. KSK's legal adviser does not believe that the investment manager can claim that much cash but it is likely to affect the initial payout to shareholders, which is expected six weeks after the appointment of the liquidator. The initial payout is likely to be 80p a share, with the rest retained until the legal claim is settled.

Grafton resource fund launched

A new fund has been launched that will offer resource companies an alternative way of raising finance. Cayman Island-registered Grafton Resource Investments will have a five year life and is planning to float in Dublin in the near future.

David Hutchins and Kjeld Thygesen act as fund managers of Grafton for Newland Fund Management. Hutchins was behind the Resource Investment Trust, which was launched in 2002 and wound up in 2007. Grafton has the same strategy as RIT. It swaps its own shares for shares in a quoted company looking to raise money. The quoted company then sells its Grafton shares over a period of time in order to raise cash.

CAYMAN ISLANDS - HOME TO GRAFTON

Grafton's first investment was in TSX Venture Exchange quoted mining company Zoloto. More recently it has struck a deal with AIM and TSX Venture Exchange quoted Arian Silver Corporation, which has silver mining interests in Mexico. Arian will swap 26.1m of its shares at C$0.055 for C$1.44m worth of Grafton shares. Grafton could end up with 44% of Arian.

Arian's chief executive Jim Williams is a big supporter of the concept. He believes that it is a straightforward, alternative way of providing finance to enable resource companies to grow.

The real test for the concept will be when the companies try to sell their stakes in Grafton. Williams is realistic and understands that the Grafton shares are likely to be sold at a discount to their NAV. He is assuming a 10% discount but it could possibly be more than that.

Creating investor interest in the Grafton shares will be the key to whether this proves a good way for AIM resources companies to raise money.

Fund raisings to improve for third month

Money raised by Aim-listed companies increased in both December and January and is on course to rise again in February following the £125m raised by Russian warehouse developer Raven Russia.

January saw £165m raised to follow £159m in December and £67m in November.

The figures bear little comparison with this time last year and are a fraction of amounts being raised in 2007, but the background has become much tougher for firms to raise money with the onset of the banking crisis.

Most of the cash raised came from secondary issues though January saw one reversal, IQ Holdings, onto AIM. February also also saw the first new issue of 2009 with dealings starting in Singapore-based Yujin Holdings International Limited on 10 February. Yujin did not raise any new money when it floated.

Raven Russia is the largest fund raiser so far this year with its £125m placing to accompany a takeover of its former parent Raven Mount.

Invesco will subscribe for £75m of the placing monies, which comprise one preference share and one warrant. The preference shares convert into ordinary shares at 25p.

Raven Russia's bid for Raven Mount consists of 0.525 Units of 1 Preference Share and 1 Warrant for every share in Raven Mount. It values Raven Mount at £57m. Raven Mount was short of projects but has cash of £20.8m and Raven Russia has a pipeline of development projects but was short of cash.

Seymour's China index falters

Seymour Pierce's AIM China index fell by 57.5% in 2008, though it still did better than the 62.4% decline in AIM as a whole.

Seymour Pierce, which is one of the largest AIM nominated advisers, believes that AIM-quoted Chinese companies with greater exposure to the domestic economy will fare better in 2009.

Growth rates are declining but Seymour Pierce expects the pace of growth to remain solid.

This growth will be supported by strong international competitiveness as well as a robust domestic economy. The inflation rate is declining.

news

Market volatility boosts Patsystems

Software & Computer Services

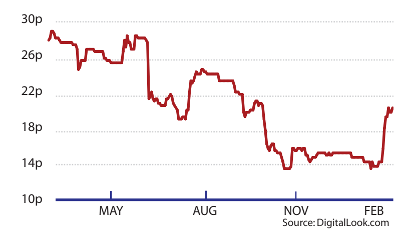
The company would like to buy a regional software business and roll out the product around the world.

Market turmoil gave a boost to derivative trading systems software provider **Patsystems** last year, while gaining access to the main derivatives exchange in Latin America also helped revenues grow 16% to £19.6m – 10% growth at constant currencies.

Patsystems platforms are now linked up to the Brazilian Mercantile & Futures Exchange, which is one of the main derivatives exchanges in Latin America.

The main source of growth last year, though, was Asia. Recurring revenues accounted for 87% of the group total. Profits improved from £2.79m to £3.45m. The final dividend was increased by 10% to 0.363p a share.

PATSYSTEMS (PTS)			20.00p
12 MONTH CHANGE %	- 27.27	MARKET CAP £M	35.91
TURNOVER £M	21.08	FORECAST P/E	10.30



The group hedges three-quarters of its dollar exposure over a 12 month period but it will benefit from the pound's weakness, while new business wins will at least help to offset any revenues lost from customers merging or staff cuts.

There was net cash of £5.9m at the end of December 2008. The group has £21m of tax losses around the world. It does have to pay some tax but the tax charge will be low for the next few years at least – the figure depends on where profits are made.

The company would like to buy a regional software business and roll the product out around the world. Adding equities and foreign exchange products would help Patsystems compete with its rival GL.

It is possible that Patsystems itself could be a target. ION Trading, which recently bought back office services provider Rolfe & Nolan, owns nearly 30% of Patsystems and could be a potential bidder for the company.

Analysts forecast profits of £3.8m in 2009. The shares have risen by more than one-third in the past month They are trading on 11 times forecast earnings.

Research Now sales and profits soar

Media

Research Now is an online fieldwork and panel provider to market research companies.

RESEARCH NOW (RNOW)			242.50p
12 MONTH CHANGE %	- 2.02	MARKET CAP £M	45.02
TURNOVER £M	41.16	FORECAST P/E	8.60

Many market research companies, such as YouGov, are finding trading more difficult but this is not true for **Research Now**, which is effectively a supplier to them. Research Now is trading strongly because its online focus helps the market researchers to operate more efficiently.

Research Now is an online fieldwork and panel provider to market research companies.

Smaller market research companies are increasingly outsourcing research and the proportion of that research done online in Europe is still below the figure in the US.

Revenues grew 60% to £41.2m in the year to October 2008 with most of the business coming from repeat clients. This was helped by contributions from acquisitions in North America and Australia. Profits increased from £300,000 to £5.7m.

The business is cash generative and Research Now had net cash of £7.8m at the end of October 2008. Deferred acquisition payments of £2.9m will eat up some of this year's cash but net cash is still expected to improve to £9m by the end of November 2009.

The company is cautious about prospects but it has not noticed any real downturn in demand for its services. It deals with a number of small agencies but there have not been any worrying signs in terms of bad debts.

Analysts forecast that profits will increase to more than £8m this year. That means that the shares are trading on less than nine times forecast profits.

Aero Inventory strengthens its balance sheet

Aerospace and Defence

Investors may be nervous about parting with their cash these days but **Aero Inventory** has managed to raise a decent amount of money from existing shareholders.

The aerospace parts management business has successfully raised £11.9m gross at 250p a share. On top of this cash call, Aero has sold $100m worth of parts to Air Canada. This is the equivalent of around six months expected sales to the airline. Aero is receiving a 12 month bill of exchange for the sale and it intends to sell this immediately at a discount. This is expected to mean that the underlying margin of this business is slightly lower than normal.

Aero is in a stronger position to win and fund new contracts. Management says that there are "unprecedented new business opportunities".

The aerospace parts management business has successfully raised £11.9m gross at 250p a share.

The business is cash hungry because Aero has to stock up with parts when it wins new business. Sometimes it has to buy its customer's stock as part of the initial deal.

Even after the fund raising and disposal Aero will have net debt in excess of $400m by the end of June 2009. The business has struggled to generate cash from operations and needs to address this issue.

The existing business appears to be holding up well but there is a danger that the world economic conditions could cause a drop off in demand for parts if planes spend less time in the air.

JPMorgan Cazenove forecasts a rise in profits from $73.1m to $90m in the year to June 2009, increasing to $99.2m the following year.

AERO INVENTORY (AI.)			210.50p
12 MONTH CHANGE %	- 61.02	MARKET CAP £M	110.29
TURNOVER $M	440	FORECAST P/E	2.70

Aquarius swoops on Ridge Mining

Mining

Fully listed **Aquarius Platinum** is launching an all-share offer for Ridge Mining. The proposed offer is one Aquarius share for every 2.75 Ridge shares.

Both companies have platinum group metals mining interests in the Bushveld Complex in South Africa and the combined group will be much stronger. Overheads can be cut and the operating cost structure should improve.

Aquarius is looking at a range of debt and equity financing alternatives to finance the enlarged group. The platinum miner has not had a happy time recently. Aquarius reported a net loss of $70.1m in the six months to December 2008.This loss was exacerbated by the costs of the suspension of production at the Everest mine due to subsidence.

Aquarius was originally on AIM before moving to the Main Market on 17 July 2002. Aquarius is also listed on the Johannesburg Stock Exchange.

SAN LEON ENERGY (SLE)			11.50p
12 MONTH CHANGE %	N/A	MARKET CAP £M	31.20
TURNOVER £M	N/A	FORECAST P/E	N/A

Oil and gas explorer **San Leon Energy** is buying TSX Venture Exchange-quoted rival Gold Point Energy. The all-share offer values Gold Point at just over $1m.

San Leon is offering one of its own shares, currently trading at 11.5p, for every six Gold Point shares. When the bid was launched San Leon shares were trading at 16.5p each, which valued the bid at $1.5m.

San Leon has interests in Morocco, the Netherlands and the US, while Gold Point will add assets in Poland the US. Gold Point also has experienced industry professionals.

San Leon is particularly interested in the Polish asset. Gold Point owns 50% of Block 106, at Szczecinek, north-west Poland, which is operated by Gas Plus.

The previously discovered Czarne gas field on the block is estimated to have recoverable P50 gas reserves of 12.4bcf.

San Leon joined AIM on 29 September 2008. The introduction price was 37p a share, which valued the company at £100m. At the time the management said they wanted to use the share quote to finance acquisitions.

news

Rio stalks Kalahari and seeks to tighten grip on Extract

Mining

KALAHARI MINERALS

Kalahari Minerals succeeded in unseating the chairman of its 40.6% owned associated company Extract Resources and now it plans to remove another two directors. Meanwhile, Rio Tinto recently increased its stake in Kalahari from 13.9% to 15.8%. Rio also owns 15.1% of Extract.

Mining investor Emerging Metals has edged up its stake in Kalahari to 8.84% as well. This has led to a sharp rise in the Kalahari share price.

Broker Ambrian believes that there will be further buying of the shares and that they are worth more than 100p each.

A proposed merger between Kalahari and Extract was scuppered by shareholders who did not want to give Rio the chance to buy the combined business too cheaply.

Because Extract, which owns the Rossing South uranium deposit in Namibia, is quoted on the ASX it is difficult for Rio to build up a substantial stake.

Building up stakes in and bidding for an Aim-quoted company is more straightforward. As Kalahari tightens its control of Extract a bid from Rio for Kalahari could give it effective control of Extract.

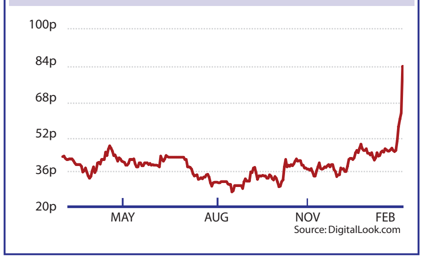
Rio owns an adjacent uranium property and it makes sense for it to try and add to its assets in the area, particularly as the exploration news from Rossing South and Ida Dome, another site near Rio's interests, has been positive.

Following the removal of Extract chairman Bob Buchan, John Main was appointed an independent non-executive director of Extract. Kalahari is opposed to the appointment and is trying to block it in the courts. Meanwhile, it has requisitioned another EGM to remove Neil McLachlan and Peter Meagher as directors of Extract.

The situation is further complicated by the row brewing at Rio Tinto following its plan to raise nearly $20bn through a convertible issue and asset sales to Chinese firm and major shareholder Chinalco.

KALAHARI MINERALS (KAH) 78.00p

12 MONTH CHANGE %	+ 89.09	MARKET CAP £M	139.55
TURNOVER £M	N/A	FORECAST P/E	N/A



ADVISER CHANGES - UPTO 19TH OF JANUARY

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Metic Group	Old Park Lane/Arbuthnot	Arbuthnot	Arbuthnot	Arbuthnot	02/01/2009
Chamberlin	Charles Stanley	Teather	Charles Stanley	Teather	05/01/2009
Medical House	FinnCap/Nomura Code	Nomura Code	Nomura Code	Nomura Code	05/01/2009
Spiritel	FinnCap	Daniel Stewart	FinnCap	Daniel Stewart	06/01/2009
Wyatt Group	Zeus	Blue Oar	Zeus	Blue Oar	06/01/2009
Cagney Group	WH Ireland	IAF	Smith & Williamson	Smith & Williamson	06/01/2009
IdaTech Group	Numis	Dresdner Kleinwort	Numis	Dresdner Kleinwort	07/01/2009
Mano River Resources Inc	Evolution	Panmure Gordon	Evolution	Panmure Gordon	08/01/2009
Majestic Wine	Investec	Teathers	Investec	Teathers	08/01/2009
Fairpoint Group	Oriel	Numis	Oriel	Numis	08/01/2009
Watford Leisure	Strand Partners	Dowgate	Strand Partners	Strand Partners	08/01/2009
Teleset Networks	Blue Oar	Metropol (UK)	Blue Oar	Blue Oar	08/01/2009
AdEPT Telecom	Blue Oar	Teathers	Blue Oar	Teathers	09/01/2009
Landore Resources Ltd	Strand Partners	WH Ireland	Strand Partners	Strand Partners	09/01/2009
Energy Asset Management	Religare Hichens Harrison	Religare Hichens Harrison	Beaumont Cornish	Ruegg	12/01/2009
Coal of Africa Ltd	Morgan Stanley/Evolution/Mirabaud	Blue Oar/Mirabaud	Evolution	Blue Oar	12/01/2009
Swallowfield	Smith & Williamson	Blue Oar	Smith & Williamson	Blue Oar	12/01/2009
NetDimensions (Holdings)	Arden	Teathers	Arden	Teathers	14/01/2009
Bright Things	Throgmorton Street Capital/HB	HB	HB	HB	15/01/2009
Aurelian Oil & Gas	Jeffries/Tristone	Fox-Davies	Ambrian	Ambrian	15/01/2009
Off-Plan Fund Ltd	John East	Numis	John East	Numis	16/01/2009
Ocean Power Technologies Inc	Nomura Code	Collins Stewart	Nomura Code	Collins Stewart	16/01/2009
StatPro Group	Cenkos	Arbuthnot	Cenkos	Arbuthnot	19/01/2009
Mount Engineering	Charles Stanley	Blue Oar	Charles Stanley	Blue Oar	19/01/2009
Acta SpA	Charles Stanley	Numis	Charles Stanley	Numis	19/01/2009

expert views

THE INSIDE TRACK

Expert view: The broker

What we look for from a finance director

By Eddie Edmonstone

At finnCap, our main contact with our corporate clients is often through their finance directors (FDs). We meet hundreds of finance directors throughout the year and their competencies range from accounting expertise to strength at managing a board, and really effective communicators. What we are looking for is a mixture of all of these qualities...and a few more.

Keeping cool in a crisis is also vital– and in these markets it is more likely that this could be tested!

In these times of economic turmoil, the focus and pressure on finance directors to perform and to rise to the challenge is even more important. Fellow management team members, board members, shareholders and even employees all rely on their finance directors to steer the company through tricky waters and provide expert financial leadership.

From an investment banking point of view, our requirements for finance directors are much the same. Ultimately, we are looking for a competent and confident individual who can demonstrate astute financial skills, communicate and carry out financial planning and comply with all corporate governance. Keeping cool in a crisis is also vital– and in these markets it is more likely that this could be tested!

It is vital that an FD is competent as a member of the board and can competently consider all commercial matters affecting the business.

We need to feel that the FD acts as a good counter balance to the chief executive officer (CEO), that they have sufficient gravitas and weight on the board so that board decisions are not steam-rollered through by the CEO or other forceful personalities on the board. The FD can't just be a numbers man - the role also requires strong relationships with non executive directors and other board members.

FDs should be able to prove certain criteria, including a proven track record, preferably with a listed company, thus demonstrating an in-depth understanding of the FSA, compliance and other industry regulations.

The ability to run the financial affairs of the company unaided is vital. This involves dealing with banks and other lenders on routine and complex matters, dealing with auditors, understanding accounting systems, dealing with insurance matters. They should also have strong relationships with banks, more now so than ever in these times when credit is difficult to come by.

An FD should also be able to ensure a company has enough cash to achieve profitability or to stay cash positive, and have the experience to ensure that internal controls are more than simply adequate. Accurate budget forecasting and projection, and prudent cash management should also be high on the agenda.

Corporate developments will focus attention on the financial decision-making behind any deal and FDs will be asked to prove that acquisitions are earnings enhancing/synergistic with business plans - this is all part of being able to communicate a corporate strategy succinctly and clearly.

Communication skills are vital and often overlooked in place of financial experience, but this is a crucial area for FDs to master if they are to ensure key financial messages are understood by the City. An effective FD won't just be a bean counter.

It is essential that the FD can have a close relationship with analysts - especially the house broker - and has the skills to carefully guide forecasts. There are times when the FD will have to conduct an investor meeting without the CEO – so the FD also needs to be an effective presenter and sufficiently rounded to be able to talk strategy, to discuss market dynamics and their impact on forecasts. They could well have to field Q&A sessions that delve deeply into the financial management of a

expert views

business, and FDs that are unable to answer questions fully will not be greeted warmly by analysts or investors.

The ability to anticipate market reaction is a benefit and we like to see an FD with an understanding of what is expected by shareholders and competition/market/industry trends.

Working hand in hand with all advisers, we look for FDs to take the lead on announcements – it's a fine line: not too many, but not too few. Careful wording of press releases so that financial effects are clear, or not misleading, is also vital.

As well as correct wording, FDs should be able to take the lead in regulatory understanding and be fully up to speed with compliance with AIM and Stock Market rules.

The role of an FD is developing to encompass a wide range of skills and competencies. In a listed environment, their performance needs to be able to stand up to deep scrutiny throughout the City, as advisers aren't afraid to take a tough line with FDs who aren't up to scratch.

The benefits for a company with a strong and experienced FD are many, and they – together with shareholders, investors and employees – will reap the rewards for years to come.

EDDIE EDMONSTONE is head of corporate broking, at finnCap. Eddie has over 20 years smaller company sales experience during which time he has worked on over 100 IPOs and countless secondary fund raisings. He was a founder shareholder at Peel Hunt where he spent 10 years and was head of smaller companies. Eddie joined FinnCap in 2003 as Head of Corporate Broking, since when over £200m has been raised for corporate clients.

Expert view: The lawyer

AIM – An International Expansion

By Scott Leonard-Morgan

The London Stock Exchange has a new joint venture partner in the form of the Tokyo Stock Exchange. The joint venture, called Tokyo AIM, has been under discussion for several years and is now due to be launched in June, although it is not yet clear when the first companies are likely to be listed on the exchange.

This is not the first example of the LSE setting up a junior, AIM-based venture overseas. December 2008 witnessed the launch of AIM Italia, a junior market to the Borsa Italia with which the London Stock Exchange merged last year. AIM Italia is still evaluating potential nomad appointments and as yet no companies have listed on that exchange.

With the London Stock Exchange seemingly unsure of how many listings it can expect over the coming months on either AIM Italia or Tokyo AIM, should we query why it considers these ventures to make sound commercial sense? Should we question what sense of direction the London Stock Exchange is taking? By most accounts business at the London Stock Exchange has not been at its best recently, but it would be fair to ask whether the type of international expansion that it has been undertaking recently is the prudent route to take, especially considering that Japan at least already has its own, pre-existing junior market.

We saw in the last issue of Bulletin that the number of companies listed on AIM has dropped by 114 in the 11 months to November 2008. While this is a reflection not only of the state of the current AIM market but also of the broader financial markets and the economy as a whole, it has caused some to wonder whether AIM should be focussing more on its core domestic appeal rather than continuing on a global expansion.

The benefits of these ventures for the overseas markets are relatively clear. Each of Tokyo AIM and AIM Italia will incorporate the AIM market's nomad-based system to ensure that issuers comply with regulations and secure additional international exposure, and this in turn should assist the financing of developing Italian and Japanese growth companies. What the quid pro quo for London is, appears less clear. Certainly in years gone by neither the London Stock Exchange nor the AIM market have struggled to attract high quality overseas companies to their domestic ticker boards, and we will have to observe whether this dilutes that appeal.

The levels of success that these international ventures attain has yet to be seen, but potential issuers across Europe should consider whether we are heading towards a pan-European approach or whether the domestic solution will prevail.

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feature

Time for action on AIM VCTs

The fact that no AIM VCTs are attempting to raise money this year underlines a funding crisis at the small-medium end of the market. Action is needed now say AIM insiders.

Just at the time when small listed companies need non-bank funding more than ever, the AIM –focused VCT sector has seemingly ground to a halt due to a combination of weak equity markets and recent changes in the tax breaks and investing rules.

As we went to press, not one AIM focused VCT was attempting to raise new cash this year.

Other VCTs are getting their marketing activity for the current round of the sector funding into top gear and highlighting the attractions of big tax breaks up front, no tax on gains and depressed share prices.

AIM insiders, companies and business organisations are very concerned by a growing finance gap for small to medium-sized companies and have met the government to seek big changes to the rules governing the VCTs in the next Budget if not earlier. Prospects for success are far from certain.

Small companies are the lifeblood of an economy and the government publicly acknowledges their importance as vital for the health of the UK, but its actions seem to tell a different story.

Some directly trace the decline of AIM VCTs back to the Budget in March 2007 when the then Chancellor Gordon Brown narrowed the criteria for qualifying companies that VCTs could invest in.

Combined with a reduction in the tax relief available, from 40% to 30% of the investment in the VCT, the result has been that money being raised by AIM specialists and other VCTs that invest part of their cash in AIM companies has dropped off dramatically. So, even when an AIM company does qualify the supply of cash is dwindling.

Venture Capital Trusts

VCTs were launched in April 1995 so some of them have been around for nearly 14 years. The rules have changed often but the underlying tax benefits for investors - income tax relief and tax free dividends - remain the same (see box).

VCTs themselves must invest 70% of their cash in qualifying investments within three years of the date money was raised. If a VCT has had more than one cash raising, the three year period relates to each time money is raised. If this isn't achieved then theoretically the VCT could lose its status. That hasn't happened to any VCT yet.

The range of companies open to VCTs was narrowed substantially by the changes in the 2007 Budget. The investee companies must have no more than 50 full-time employees and gross assets of £7m or less when the money is invested. The company's gross assets can't be more than £8m after the VCT investment.

Equity gap

The impact of the changes is clear. From a peak in 2005-06, when £790m was invested by individuals, the amount of money raised in the two years following fell to £267m and £219m, respectively.

Even though the figures for investment in VCTs do not look too

VCT FACTS

Investment

An individual investor can invest up to £200,000 in total in one or more VCTs in each tax year. Individual VCTs set their own minimum investment levels. They can be as low as £3,000 or be £25,000 or more.

Tax benefits

The rate of income tax relief has varied over the years between 20% and 40%. It is currently 30%. This can be claimed as a reduction on tax owed in the tax year of the investment or it can be claimed back as a rebate from tax that has already been paid.

The tax relief means the net cost of every £1,000 invested is £700. Dividends and capital gains are tax free. However, tax on gains on disposals of other shares can no longer be postponed to a point in the future by reinvesting the gain in a VCT. That was ended on 5 April 2004.

VCTs need to be seen as a long-term investment. In order to retain all these tax benefits the shares have to be held for at least five years. If all or some of the shares are sold during that five year period then all or part of the benefits will be lost and the HMRC can claim back the tax relief. The longer the shares are held before disposal the less that will have to be paid back.

feature

bad, the proportion of the cash going into AIM investments has declined sharply. So far in the 2008-09 tax year, there has been no fund raising by an AIM VCT.

Over the past three years, the amount going into AIM-focused funds has dropped from £196m in 2005-06 to £29m, the following year, to £9m in 07 and possibly zero this time. Much of the recent VCT investment has been in limited life funds that do not necessarily look to invest in Aim companies.

Sophie Tomkins, head of research and sales at Fairfax IS, says that the government "has to find ways of playing with VCT rules to get more private investor money". "One of the issues making life hard is that VCT money has run out", she adds. This is effectively money raised in the year when investment in VCTs peaked. There will be even less to go round in the future tax years.

The majority of the companies on AIM have a market capitalisation of £25m or less and are finding it increasingly difficult to borrow from the banks. So their ability to raise equity is becoming more crucial. The ability of VCTs to plug the gap has been sabotaged by the rule changes.

"There will be a funding gap at the lower end of the market", according to Tomkins. This is the reason that many people are calling on the government to take action to ensure that small companies can help to drive the economy out of recession. What little investment cash there is will go into the least risky investments.

Chilton Taylor, head of corporate finance at accountant Baker Tilly says: "The 1,000 or so UK companies on AIM employ more than 155,000 people. A couple of adjustments to VCT legislation might help some to survive these troubled times and also spark future opportunities. It should be a no-brainer."

The London Stock Exchange has reportedly gone to see the Treasury to discuss the problem but there have been no signs, as yet, that anything will be done.

The Exchange is to call on the government to use the next Budget to increase the gross asset limit to £25m and the employee limit to 200. More importantly, it wants VCTs to be allowed to invest in qualifying companies in the secondary market. Such a move would allow them to counter the sharp fall in most illiquid small company shares if a tiny tranche is put up for sale.

> VCTs were launched in April 1995 so some of them have been around for nearly 14 years.

One problem is that the government justified the changes to the rules in 2007 by pointing to EU state aid rules and Taylor is not convinced that the Treasury will stand up to Brussels even with the dire economic backdrop.

If the government wants a lead on how to tweak the rules, Taylor suggests it looks no further than fellow EU member France where its equivalent system, the FCPI, has proved very successful in funnelling cash to largely French-based firms.

Fonds Communs de Placement dans l'Innovation - which can be translated as private equity mutual funds specialising in innovative companies - were launched in 1996, and have raised three times as much as has been invested in VCT schemes. The FCPI allows investment across Europe though the amount of money an individual can invest is lower.

There is one big difference with VCTs. The FCPI can invest in companies with assets up to €150m and 2,000 employees. If applied to the UK on a similar basis it would cover nearly all of companies currently listed on AIM and a fairly hefty chunk those on the main market as well. Costs of boosting the tax break hardly seem to be as issue as the amounts involved would barely constitute a rounding error on the sums currently being advanced to the UK banking sector.

Perception may be an issue. The recent introduction of protected and fixed life versions has given the impression that VCTs were just another branch of the tax avoidance industry. But Taylor says the onus must be on everybody working at the smaller company end of the UK economy to make the government aware of just how serious the problem is for all small companies and that it needs fixing quickly.

VCT FACTS

Types of fund - AIM

AIM funds invest predominantly in qualifying AIM-quoted companies. Some of them may also have a small proportion of their cash invested in Plus-quoted or other unquoted companies.

Generalist

Generalist funds tend to invest in a combination of private equity, AIM and Plus-quoted investments. There are no required levels of investment in any particular area as long as 70% of the cash is invested in these 'unquoted' investments in the requisite three year time frame. This gives the fund manager greater flexibility to diversify the portfolio.

Specialist

Specialist funds will focus on one particular sector or group of related sectors. These include technology, media and leisure, healthcare, and environmental.

Limited Life

Limited life funds have specific dates set for when they will be wound up. They can invest in a number of different areas.

statistics

market performance, indices and statistics

AIM SECTOR INFORMATION

SECTOR NAME	AS % OF AIM MARKET CAP	AS % OF AIM COMPANIES
Mining	12.74	10.70
General Financial	11.78	12.20
Oil & Gas Producers	9.09	6.26
Real Estate	9.05	6.46
Equity Investment Instruments	7.74	4.24
Support Services	6.01	8.68
Travel & Leisure	5.38	4.50
Food Producers	4.33	1.63
Software & Computer Services	4.05	7.31
Media	3.42	6.33
Nonlife Insurance	3.17	0.91
Construction & Materials	2.59	2.22
Pharmaceuticals & Biotechnology	2.59	3.85
Electronic & Electrical Equipment	2.24	3.52
General Retailers	2.10	1.83
Electricity	1.84	0.91
Industrial Transportation	1.62	0.78
Health Care Equipment & Services	1.29	2.54
Industrial Engineering	0.98	1.96
General Industrials	0.93	1.44
Chemicals	0.85	1.83
Technology Hardware & Equipment	0.74	2.09
Mobile Telecommunications	0.59	1.17
Oil Equipment & Services	0.58	0.72
Food & Drug Retailers	0.54	0.52
Banks	0.49	0.13
Fixed Line Telecommunications	0.45	0.39
Life Insurance	0.35	0.07
Aerospace & Defence	0.35	0.20
Household Goods	0.32	0.91
Forestry & Paper	0.28	0.26
Gas Water & Multiutilities	0.28	0.20
Personal Goods	0.27	1.11
Beverages	0.24	0.26
Automobiles & Parts	0.23	0.78
Industrial Metals	0.17	0.46
Investment Entities	0.09	0.13
Leisure Goods	0.09	0.46
Nonequity Investment Instruments	0.05	0.07

KEY AIM STATISTICS

Total number of AIM companies:	1533
Number of market makers:	49
Total market cap for all AIM:	£38956.41m
Total of new money raised:	£60307.20m
Transfers to the official list:	128

AIM COMPANY PERFORMANCE

Statistics for January 2009

No. of shares rising:	588
No. of shares falling:	717
No. of shares unchanged:	228
Advance/Decline Ratio:	0.82
Market Volatility:	45.59

FTSE INDICES

ONE-YEAR CHANGES

INDEX	02/02/2009	02/02/2008
FTSE AIM All-Share	401.63	983.10
FTSE AIM 50	1793.78	4861.80
FTSE AIM 100	1906.06	4826.00
FTSE Small Cap	1769.48	3167.30
FTSE All-Share	2040.30	3077.40
FTSE 100	4077.78	6029.20
FTSE 250	6052.38	10186.60

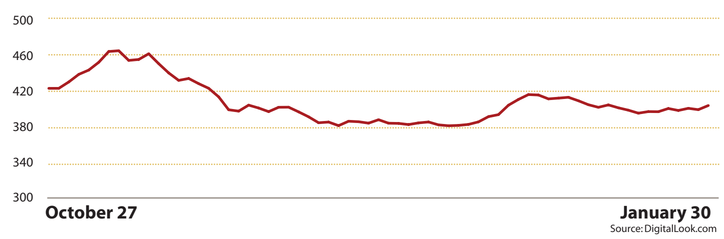
COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	578
£5m-£10m	261
£10m-£20m	248
£20m-£50m	249
£50m-£100m	123
£100m-£250m	57
£250m+	17

RISERS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Playgolf Holdings	Travel & Leisure	2.25	1185.71
IncaGold	Media	0.43	466.67
ReNeuron	Pharmaceuticals & Biotechnology	10.00	263.64
Lombard Medical Technologies	Health Care Equipment & Services	1.75	250.00
Centrom Group	Software & Computer Services	0.38	240.91
Norseman Gold	Mining	5.88	235.71

AIM - 13-WEEK INDEX CHANGE



Top Director Dealings in January

TOP DIRECTORS' DEALINGS

COMPANY NAME	TICKER	VALUE (£)	BUY/SELL	TRADE	TITLE	SURNAME	FIRST NAME	DATE
Summit Germany	SGL	4,200,000	Buy	21000000 x 20.00c	Mr	Levy	Zohar	26-Jan-09
Tau Capital	TAU	$2992000	Buy	17600000 x 17.00c	Mr	Horlick	Richard	19-Jan-09
Summit Germany	SGL	1,719,792	Buy	11465278 x 15.00c	Mr	Levy	Zohar	23-Jan-09
Alternative Networks	AN.	£580,000	Sell	400000 x 145.00p	Mr	Spurrier	Edward	16-Jan-09
Climate Exchange	CLE	£303,425	Sell	32017 x 947.70p	Dr	Sandor	Richard L	06-Jan-09
Climate Exchange	CLE	£303,425	Sell	32017 x 947.70p	Dr	Sandor	Richard L	06-Jan-09
iPoint-Media	IPNT	$433662	Sell	2550954 x 17.00c	Mr	Sagi	Efraim	15-Jan-09
Alternative Networks	AN.	£290,000	Sell	200000 x 145.00p	Mr	Marnham	Benjamin	16-Jan-09

Source: Digital Look Please note - All share prices are the closing prices on 2 February 2009, and we cannot accept responsibility for their accuracy.

Faegre & Benson

Faegre & Benson LLP is an international law firm which offers an integrated team of more than 525 lawyers in Europe, the US and Asia. In the UK, Faegre & Benson focuses on advising middle market and high quality emerging companies meeting their legal needs, both domestically and internationally, in corporate finance, mergers and acquisitions, dispute resolution, employment, commerce and technology and commercial property.

With lawyers who have been advising companies and nomads since the AIM market began, the firm provides sophisticated advice and practical experience in flotations and fundraisings, takeovers and reverse takeovers, mergers and acquisitions, corporate governance and regulatory issues.

Lawyers at the firm are at the forefront of the AIM market and have strong relationships with the major players in the AIM community. Members of the team serve at the highest levels with the Quoted Companies Alliance, which lobbies for the interests of smaller quoted companies, and have made significant contributions to legal and regulatory reforms which have shaped the market.

For further details about the firm and its legal services for AIM companies please contact Donald Stewart on +44(0)20 7450 4586 or dstewart@faegre.com.

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 47 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 June 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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