



ZIMMERMAN ADAMS INTERNATIONAL LTD

ROLE OF THE NOMAD

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ZIMMERMAN ADAMS INTERNATIONAL LIMITED
REGISTERED IN ENGLAND AND WALES No. 5136014; REGISTERED OFFICE: ONE THREADNEEDLE STREET, LONDON EC2R 8AW
AUTHORISED AND REGULATED BY THE FINANCIAL SERVICES AUTHORITY

MEMBER OF THE LONDON STOCK EXCHANGE



HISTORY OF AIM – THE “ALTERNATIVE INVESTMENT MARKET”

- Established by the London Stock Exchange in 1995
- Flexible and practical regulation for younger, smaller companies as the goal
- Established a community of “licensed practitioners” to run the new regulatory system, the “Nominated Adviser” or **NOMAD**
- **NOMADs** are experienced corporate financiers and brokers, almost all of whom have great experience, and a strong reputation, within the stockbroking community



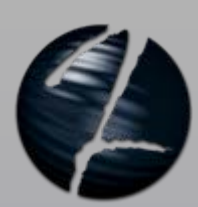
THE NOMAD

- The NOMAD acts with devolved authority from the London Stock Exchange
- Such is the importance of the role of the Nomad to AIM that a company is required to retain one at all times.
- Without a Nomad, a company is effectively unregulated and under the AIM Rules it will have its shares suspended and eventually will have its admission to AIM cancelled
- The NOMAD has been characterized as “an interactive rulebook”, or an Interactive Regulator”, or a “Regulatory who used to be (or perhaps still is) a Broker” – giving rise to analogies along the lines of “Poacher-turned-Gamekeeper”
- NOMAD’s primary responsibility and duty of care is owed to the London Stock Exchange



THE NOMAD'S 3 PRINCIPLE TASKS

1. **Determining if the Company is appropriate or “suitable” for Admission;**
2. **Managing the flotation process;**
3. **After Flotation, advising the AIM Company in respect of its compliance with the AIM rules and general corporate governance**



PROJECT MANAGING THE FLOTATION PROCESS

- **Bring together a full team of advisers**
- **Name a broker or syndicate of brokers to raise the necessary funds**
- **Set a timetable, allocate responsibilities**
- **Ensure that all parties, especially the lawyers, adhere to the timetable that has been agreed**



ADVISING ON REGULATORY MATTERS — POST FLOTATION

- **An AIM Company is under an obligation to comply at all times with the AIM Rules.**
- **The Nomad must therefore ensure that its client has appropriate systems in place to enable it to comply with those rules:**
 - **Financial reporting systems**
 - **Regulatory announcement systems**
 - **Corporate governance structures**



THE CITY CODE

The City Code on Takeovers and Mergers ('City Code') is a set of rules and principles that govern the way *takeovers and mergers* of public companies are carried out in the UK

- Applies to all UK resident AIM companies
- It is concerned broadly with the protection and equal treatment of shareholders in certain takeover and merger situations,
- where there are changes in the individuals and groups that control that company. In simple terms, 'control' is defined as a 30 per cent (or greater) shareholding in a company
- De facto, as the company's financial adviser, the Nomad will also need to advise the company on its obligations under the City Code.
- Sometimes, certain aspects of an AIM admission itself will require the Nomad to advise on the City Code and to liaise with the Panel on Takeovers and Mergers on the company's behalf, for example where the company is "reversing" into a quoted cash shell



THE NOMAD AND THE BROKER

The roles of Nomad and Broker are often confused, particularly as both roles are often performed by the same organisation. In fact, the roles are completely different and separate:

- The Nomad's role is
 - Act as the AIM Company's regulator
 - Provide general Corporate Finance advice
 - Project manage the flotation

- The Broker's principal responsibilities are to
 - Raise funds from its institutional clients
 - Manage the 'aftermarket', and ensuring that there is both a healthy interest in the company's shares and sufficient stock to satisfy that demand

- The Nomad's client is the company and its dealings with the company are private

- The broker's clients are its institutional investors and it is not privy to the confidential communications between the Nomad and the AIM Company

- Where one firm (known as an 'integrated house') plays both roles, there must be a clear separation of responsibilities and a 'Chinese wall' must be established between the two parts of that firm



DETERMINING SUITABILITY FOR ADMISSION

- *“AIM has 40 main rules, and the only absolute is that there are no absolutes” (Simon Brickles – former Head of AIM)*
- Unlike the Main Market, where a company’s suitability for listing is assessed by a quasi-governmental organisation, the United Kingdom Listing Authority (UKLA), the decision as to whether a company is appropriate for admission to AIM rests with the Nomad
- no adverse impact on the reputation and integrity of the Exchange.
- flotation on AIM is in in the best interests of the company and its shareholders as well
- Determining suitability is a matter of “subjective judgement” by the NOMAD. This subjectivity is what allows a NOMAD to determine certain companies may indeed be suitable for listing on AIM, when the Company would clearly not qualify for listing on the Main Board
- This subjectivity must always be exercised with great discretion, in order to maintain the quality standards of the marketplace



ASSESSING SUITABILITY

Unlike for the Main Market, there are very few prescriptive pre-conditions for admission to AIM. An AIM company's technical requirements are:

- To appoint and retain a Nomad and a Broker
- To prepare an AIM admission document and to ensure that its shares are freely transferable, including in most cases, in dematerialised form (i.e. electronically).

For a UK company, this entails it being a public limited company (plc). This contrasts with the Main Market where companies are required to comply with a number of pre-conditions including, among other things

- To be operated independently and be revenue-generating for at least three years,
- have a minimum market capitalisation and have at least 25 per cent of its shares in public hands

Since it is quite easy to satisfy the objective requirements for admission set by the AIM Rules, the bigger challenge for the company seeking admission to AIM is to satisfy the more general tests for overall "suitability".



DUE DILIGENCE

The Nomad oversees a formal Due Diligence process:

- **Accounting**
- **Legal**
- **Commercial/Industrial**



CORPORATE GOVERNANCE

- A private Company with a single or small number of shareholders may not have given much thought to the way the company (as distinct from the business) is managed
- For any Company and particularly for quoted Companies, it is essential to ensure that the interests of all shareholders are protected and that the interests of management and shareholders are closely aligned
- A quoted Company, for example, will need to ensure that there is a remuneration package (which might include suitably-designed share option schemes) that will incentivise management to work for the benefit of the business as a whole and that there is a method of determining whether that package is appropriate to the business (this usually involves a remuneration committee)



MANAGING THE FLOTATION

- The two key tasks in any AIM flotation are
 - Preparing an AIM admission document (often referred to as a prospectus if there is to be a fundraising)
 - Arranging the fundraising itself. Fundraisings usually take the form of a placing of shares to institutions or to certain private investors, although a fundraising can also take place via an offer for subscription to the public.
- Whichever route is chosen, arranging the fundraising is the broker's responsibility.



STARTING THE FLOTATION PROCESS

- Once the company and its advisers have agreed to proceed with a flotation and after the key professionals have been appointed and their terms of engagement agreed, the Nomad will call all parties to attend a meeting to agree a timetable, which must be adhered to if the process is not to drift
- Apart from preparing a detailed timetable, with responsibilities clearly identified, the Nomad will also circulate a detailed list of parties with contact details and a list of documents to be produced
- The Nomad will take as its starting point the end of the flotation process.
- The key date is known as 'Impact Day'. It is on this day that the AIM admission document is finalised, registered at Companies House and posted to shareholders and potential investors
- Admission to AIM and receipt of funds usually takes place shortly afterwards



ADVISING THE COMPANY AFTER FLOTATION

- A Nomad's responsibilities continue after admission and until such time as the company leaves the market
- A Nomad's principal ongoing duty is to advise its AIM company clients on their obligations under the AIM rules
- Much of the work will involve advising on the need for announcements and on their form and content
- Announcements that must be made include
 - interim and final results
 - share dealings by directors or significant shareholders
 - the issue of new shares
 - board changes
 - substantial and related-party transactions and any price sensitive information (Price sensitive information is defined as any development in the business which, if made public, would be likely to lead to a substantial movement in share price)
- These developments involve changes in the company's financial condition, sphere of activity, business performance or performance expectations (ie, profits warnings or adjustments)



ADVISING THE COMPANY AFTER FLOTATION CONT..

- While in general more information is better, care has to be taken to ensure that announcements are not misleading, as the consequences of issuing misleading announcements can be severe under the Financial Services and Markets Act 2000
- Where the market as a whole, is not aware of an important event or fact relating to the company and the share price does not reflect that information, a 'disorderly market' in the shares is said to exist
- The Nomad will maintain close contact with its clients to ensure that the market is aware of all information that needs to be in the public domain.
- On occasions, the Nomad may need to agree with the Exchange for a temporary suspension of trading in a company's stock in order to prevent shares trading in a disorderly market
- Companies will often ask their Nomad for advice on corporate governance or other issues that are not specifically covered in the AIM Rules, such as the suitability of share option arrangements or related-party contracts
- The broker will advise on what investors will find acceptable; the Nomad must advise on what is appropriate from the perspective of corporate governance and what is necessary to protect the market's reputation
- When a company enters into a transaction that might need to be disclosed under the AIM Rules, the Nomad will advise the company on its position and may need to clarify certain issues with the AIM team at the London Stock Exchange



CONSIDERATION FOR OVERSEAS COMPANIES

- Overseas companies may wish to have their shares quoted on AIM to benefit from London's capital markets and the raised profile that a quotation in London brings
 - For an overseas company to be quoted on AIM in London, the Nomad will normally require that the company's business be international and not limited to its local market.
 - Certain types of business such as natural resources and biotechnology are by their nature international
 - For other types of companies, they should at least have international markets or seek to expand internationally
- For companies whose shares are quoted on certain AIM Designated Markets, for example, the Australian Stock Exchange, the Stockholmborsen and the UK Official List in the UK, there is a fast-track procedure, whereby the company does not need to produce an AIM admission document. This significantly reduces the time and cost involved in bringing a company to AIM



IDENTIFYING A SUITABLE NOMAD

- The Nomad is the single most important adviser to any prospective AIM company and must be selected with care
- Flotation can be a very arduous process and it is essential that the company's directors have confidence in their Nomad and feel comfortable working with it.
- The Nomad should also demonstrate a clear understanding of the company's business and its surrounding issues.
- Any company looking to float on AIM can obtain a list of advisers from the London Stock Exchange's own website, www.londonstockexchange.com
- Many companies will already know of Nomads either through the directors themselves or through contacts such as solicitors or accountants
- In the end, a company's choice of Nomad often boils down to personal chemistry

**“Quality and Flexibility of Regulation are the reasons AIM works,
The NOMAD is the key to the system”**



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