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For the attention of the Nominated Advisers/ finance directors/ company secretaries, all AIM companies

AIM13

STOCK EXCHANGE AIM NOTICE

AIM RULES – UPDATE

Introduction

1. The Exchange confirms a number of changes to the existing AIM Rules which will come into effect on 1 April 2005 following the end of the consultation period for Stock Exchange Notice AIM 11.

Summary of rule changes

2. The most substantive changes which have been made are in respect of:
 - Investing companies;
 - Disposals resulting in a fundamental change of business;
 - Sanctions available to the Exchange in respect of nominated advisers;
 - Rights to delay/refuse admission; and
 - Nomad independence.

A revised rule book will be available to download from our website prior to 1 April 2005.

Investing companies

3. (i) New investing companies

For new investing companies the Exchange consulted on two main changes:

1. that an investing company must raise at least £3 million in cash on admission; and
2. that an investing company must, within twelve months of its admission, make an acquisition or acquisitions, which in aggregate exceed 50% in each of the relevant class tests.

Following a review of the responses to the consultation, the Exchange confirms that:

1. all new investing companies must raise at least £3 million in cash on admission; and
2. there will be no requirement for an investing company that has raised at least £3 million in cash on admission to then make an acquisition or acquisitions within a 12 month time period. Instead, the guidance to the AIM Rules will be updated to require that there should be a vote by shareholders on the continuation of the company's business on an annual basis until, as the result of an acquisition, the company is no longer considered an investing company.

(ii) Existing investing companies:

Those investing companies admitted to AIM prior to 1 April 2005 which raised less than £3 million on admission, will need to make an acquisition by 1 April 2006 constituting a reverse takeover under the AIM Rules. Where an investing company raised more than £3 million on admission this requirement will not apply but such companies must adhere to the guidance for new investing companies set out above.

(iii) AIM companies that become cash shells:

Where an AIM company which has become a cash shell by divesting itself of its business interests, shareholder approval for its investing strategy going forward will need to be sought at its next scheduled annual general meeting. Such companies will then need to make an acquisition within twelve months of the date of the annual general meeting where shareholder approval was sought. All such acquisitions will constitute a reverse takeover transaction under the AIM Rules.

In both (ii) and (iii), if the investing company does not make the necessary acquisitions within the prescribed period its AIM securities will be automatically suspended. If it does not make such an acquisition within six months from its suspension, the Exchange will cancel the admission of its AIM securities.

(iv) other changes

The Exchange also confirms that:

1. the definition of substantial shareholder will be amended to exclude investing companies from the exemption from rule 7 for companies with securities quoted upon the Exchange's markets; and
2. the investing strategy criteria set out in the guidance to Schedule Two will be moved to Schedule Two.

From 1 April 2005 an applicant's compliance with the investing strategy criteria will be monitored following admission of the applicant to AIM. Where an applicant's investing strategy does not meet the criteria set out in Schedule Two, such instances will be treated as a breach of the AIM Rules.

Disposals resulting in a fundamental change of business

4. The Exchange confirms that the proposed rules will come into effect in respect of fundamental disposals. As such, where an AIM company makes a disposal or disposals in a twelve month period that, in aggregate, exceeds 75% in any of the class tests shareholder approval will be required.

In such circumstances it is proposed that the AIM company must send a circular to shareholders containing the information specified by Schedule Four and convening the general meeting. The disposal must be conditional on the consent of its shareholders being given in the general meeting.

The Exchange can also confirm that where the effect of the disposal is to divest the AIM company of all, or substantially all of its business activities, the AIM company will be treated as an investing company from that time and the circular containing the information specified by Schedule Four convening the general meeting must also state its proposed investing strategy in accordance with Schedule Two paragraph (j).

Sanctions available to the Exchange in respect of nominated advisers

5. The Exchange confirms that the range of sanctions available to the Exchange in respect of nominated advisers will be extended to include the ability to impose fines. It should be noted that the maximum fine the internal AIM Executive Panel can impose is £25,000. The external AIM Disciplinary Committee has no such limit on the level of fine that can be imposed.

Delaying or refusing admission

6. The Exchange confirms that the existing rule 8 will be amended giving it the express right to refuse admission of an applicant to AIM where it considers that admission may be detrimental to the orderly operation of the Exchange's markets, or where the applicant does not or will not comply with a special condition imposed upon the applicant by the Exchange.

The Exchange can also confirm that the period for which it can delay admission will now be extended from two to **ten** business days.

Further Guidance on nominated adviser independence

7. The Exchange can confirm that the proposed further guidance on nominated adviser independence as set out in the consultation paper will be adopted in the nominated adviser eligibility criteria. For the avoidance of doubt, it should be noted that the reference to 'associate' made in the consultation paper referred to section (c) of the definition of related party in the AIM Rules. The new guidance is as follows:

- No partner, director, employee of a nominated adviser or associate of any such partner, director or employee may hold the position of a director of an AIM company for which the firm acts as nominated adviser;
- No nominated adviser or partner, director, employee of a nominated adviser or associate of any such partner, director or employee either individually or collectively may be a substantial shareholder (i.e. 10% or more) of an AIM company for which the firm acts as nominated adviser;
- A nominated adviser or partner, director, employee of a nominated adviser or associate of any such partner, director or employee may be a significant shareholder (i.e. 3% or more) (but not a substantial shareholder) of an AIM company for which the firm acts as nominated adviser provided adequate safeguards are in place to prevent any conflict of interest;
- No partner, director, employee of a nominated adviser or associate of any such partner, director or employee may deal in the securities of an AIM company for which the firm acts as nominated adviser during any closed period of that company;
- When calculating an interest in a client company a nominated adviser is permitted to disregard any interest in shares pursuant to Section 209 Companies Act 1985; and
- Where a nominated adviser breaches any of the above limits as a result of its underwriting activities it must make best endeavours to sell down its holding to within the guidelines as soon as reasonably practicable.

It should be noted that the above guidelines only apply within the corporate finance function of a nominated adviser firm and not to other areas separated by chinese walls.

Rules

8. The rule changes will come into effect on 1 April 2005.

The revised rules will be available to download in a clean and marked up version from our website shortly.

Hard copies of the AIM Rules will be available at a later date.

9. If you have any queries on the AIM Rules or would like further information on the rule changes please contact Ray Knowles at rknowles@londonstockexchange.com or by telephone 020 7797 1564. Alternatively, please contact Chris Allison at callison@londonstockexchange.com or 020 7797 4294.

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