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THE ONLINE MONTHLY FOR THE ALTERNATIVE INVESTMENT MARKET

AIM JOURNAL

Bluehone offers finance alternative

AIM companies will have another option for obtaining growth finance following fund manager Bluehone's AIM flotation of Bluehone Secured Assets (BSA), which will provide secured loans to companies capitalised at less than £50m. The plan is to have a portfolio of 15-20 loans and be substantially invested within 12 months. This will help to fill the gap caused by lack of lending by banks.

Jersey-based BSA wants to raise up to £40m at 100p a share to lend to UK smaller companies. The main focus will be AIM-quoted companies, although it might also lend to Main Market or unquoted companies. More than 300 quoted companies meet the criteria of an earnings multiple of less than 17.

Management track record and potential for the company are important criteria. BSA will be able to monitor management accounts following any loan. Loans will be between £1m and £3m and last for up to five years. The companies are likely to be charged an annual interest rate of 8.5% plus an arrangement fee of 3%.

BSA believes it can provide a yield of 6% to investors. This will be via share buy-backs rather than dividends. The company has permission to buy back up to 50% of its shares. There will also be potential upside from warrants issued to the company.

LSE exits Tokyo AIM

The London Stock Exchange has sold its stake in Tokyo AIM to its partner, the Tokyo Stock Exchange, for £1.3m plus £200,000 in royalties. In the year it was launched the London Stock Exchange invested £6.1m in the joint venture.

Tokyo AIM was 51% owned by the Tokyo Stock Exchange and 49% owned by the London Stock Exchange. It was launched in June 2009 as the equivalent of AIM. The market was aimed at professional investors and the plan was for J-Nomads to oversee the companies. Although the nominated adviser system works on AIM it appears that Japanese advisers were more reluctant to shoulder the responsibility of making sure that companies followed the market's regulations.

The only company to join Tokyo AIM was Japanese biotech Mebiopharm, which is developing cancer treatments. Phillip Securities Japan was the J-Nomad.

Last year, the London Stock Exchange's share of the loss by Tokyo AIM was £1.6m, down from £2m the year before. The investment had a book value of £3.6m at the end of March 2011. The interim accounts did not include a breakdown of these figures.

The Tokyo Stock Exchange plans to integrate Tokyo AIM and re-brand it as TOKYO PRO Market.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Eros plans a move to New York market

Indian films producer Eros International intends to leave AIM and move to the New York Stock Exchange to coincide with a fundraising for up to $250m. Major shareholder Beech Investments will be selling shares at the same time.

Eros believes that the NYSE will provide more efficient access to capital on favourable terms and there is a group of similar companies which it can be measured against. The company also hopes that liquidity will be better. Eros argues that maintaining the AIM quotation alongside a NYSE listing would be too costly.

The NYSE might provide a better home now but when the business was smaller it would have been difficult to float in the US. Eros has built up a track record since floating on AIM in July 2006. That will help to attract US investors.

Back in July 2006 Eros was valued at £176m at 176p a share. Eros has raised £73m on AIM, including £16.7m at 505p a share near to the peak of the share price in 2007. At that time, Beech raised £27.8m from a share sale. The share price subsequently fell but it has recovered from a low of 64p early in 2009 to 245p – 39% above the flotation price.

AIM has done its job and it is sensible for a company of this size to consider moving on. The real question is why Eros did not choose to move to the Main Market in London rather than the NYSE? The Main Market cannot just assume that AIM companies will move to it when they can have a choice of world markets.

Cobra reveals bidders

Insurance broker Cobra Holdings has revealed that it has two potential suitors. They are Towergate Insurance Group and Alto Intermediary Group, a bid vehicle formed by Cobra's own chief executive, Stephen Burrows. Towergate says that it is likely to offer shareholders cash. Both potential bidders are undertaking pre-offer enquiries and due diligence and they have until 1 May to make a firm offer.

Cobra joined AIM in July 2007 when it was valued at £6.1m at 97p a share. Last December, it spent £2.33m buying back shares at 39.45p each. At the current share price of 20p a share, Cobra is valued at £7.3m. Recent disposals have raised £6m, which has reduced Cobra's net debt to £8.7m, and there is a further £2.7m to come.

Portable hotels supplier Snoozebox plans AIM event

Portable hotels operator Snoozebox Holdings plans to raise £10m as part of an AIM flotation later this year. Robert Breare, who used to run the Malmaison hotel chain, founded the business in 2010 and came up with the first prototype for outdoor events last year.

Snoozebox has designed two types of accommodation: events hotel and contrax accommodation. The events hotel accommodation can be set up at events and offer a number of amenities for each room, such as TV and en-suite bathroom. This was first used at the British Grand Prix at Silverstone. The contrax accommodation has lower specifications and is aimed at airports, film locations, construction sites and the military.

The accommodation comes in individual units of four rooms and these can be combined to produce a portable hotel with the required number of rooms. The units can be stacked in order to limit the space taken up by the hotel. Snoozebox claims that a 300-room hotel can be put together in three or four days. No planning permission is needed if the portable hotel is on the site for fewer than 28 days.

There are more than 150 annual events in the UK that could be suitable for the events accommodation, plus other one-off events. Snoozebox already has bookings totalling 1,150 rooms for 2012. These include the British Grand Prix, the Hop Farm music festival and an Olympic event. At the Isle of Man TT, rooms are being offered at £199 per night for race week.

The money raised in the flotation will concentrate on the UK market and license the product to Europe and other countries.

Bid approach for Arden Partners

Former non-executive director Grahame Whateley has made an approach to AIM adviser Arden Partners. He has suggested a bid of 37p a share in cash. That would value Arden at £10m.

There could also be a partial share alternative allowing shareholders to retain an interest in a new private holding company.

Whateley bought more than 2.3m shares in Arden at the end of January. That took his stake to 14.2%. Lloyds Banking was a seller at that time. The share price was around the present level and buying prices cannot have been any higher than 37p. Whateley raised £800,000 by selling 500,000 shares at 162p each when Arden joined AIM in July 2006.

Whateley runs Cedar Invest, a private equity business involved predominantly in property as well as other sectors including financial services.

The advent of electronic trading platforms has hit brokers. Arden has reduced its overheads and corporate finance work is described as satisfactory. Trading in the first four months of the year has been better than budget.

Jade Global Investments Ltd has increased its stake in AIM adviser Daniel Stewart Securities. Jade Global bought 10m shares at 2.5p each, which is nearly double the market price. That takes the company's stake to 5.65%.

Jade Global (http://www.jild.co.uk/) advises small companies that want to float in London. It was involved in the AIM flotation of Asia-focused property investor Top Creation Investors Ltd and took a 20% stake at that time. Daniel Stewart is Top Creation's nominated adviser and broker.

WH Ireland recently acquired 8,000 active private clients from Pritchard Stockbrokers. This represents £400m of non-cash assets under management. The broker reported a loss in the year to November 2011 but the underlying profit was £2.2m, against a £300,000 loss the year before. Revenues rose 26% to £23.1m, with the growth coming from capital markets and secondary trading.

ADVISER CHANGES - MARCH 2012

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Galantas Gold Corporation	Charles Stanley	Beaufort International	Charles Stanley	Religare	01/03/2012
Lochard Energy	finnCap	finnCap/Merchant Securities	finnCap	finnCap	01/03/2012
Matra Petroleum	Fox-Davies	Fox-Davies	Fox-Davies	Matrix	01/03/2012
Autologic Holdings	Cenkos	Collins Stewart	Cenkos	Collins Stewart	02/03/2012
Solo Oil	Old Park Lane/Beaumont Cornish	Beaumont Cornish/Shore	Beaumont Cornish	Beaumont Cornish	02/03/2012
Kibo Mining	Cornhill Capital	Cornhill Capital	Zeus	Daniel Stewart	05/03/2012
Progressive Digital Media	Singer	Investec	Singer	Investec	05/03/2012
Proteome Sciences	Cenkos	Singer	Cenkos	Singer	05/03/2012
eg solutions	Panmure Gordon	Arbuthnot	Panmure Gordon	Arbuthnot	07/03/2012
Ingenious Media Active	Beaumont Cornish	Canaccord Genuity	Beaumont Cornish	Canaccord Genuity	07/03/2012
Motive Television	First Columbus/XCAP	XCAP	Merchant Securities	Merchant Securities	07/03/2012
Brightside Group	Cenkos/finnCap	Evolution/Collins Stewart	Cenkos	Evolution	08/03/2012
Morson Group	WH Ireland	N+1 Brewin	WH Ireland	N+1 Brewin	08/03/2012
Greenwich Loan Income Fund	Investec	Singer	Investec	Grant Thornton	12/03/2012
Prime Focus London	Northland	Seymour Pierce	Grant Thornton	Grant Thornton	12/03/2012
Pan Pacific Aggregates	Rivington Street/Alexander David	Alexander David	Zeus	Zeus	13/03/2012
Blue Star Capital	Daniel Stewart/Panmure Gordon	Panmure Gordon/Alexander David	Daniel Stewart	Panmure Gordon	14/03/2012
MAM Funds	Peel Hunt	Arbuthnot	Peel Hunt	Arbuthnot	14/03/2012
Global Energy Development	Westhouse/Northland	Northland	Northland	Northland	15/03/2012
Avisen	Mirabaud	Strand Hanson	Strand Hanson	Strand Hanson	16/03/2012
ProPhotonix Ltd	XCAP/N+1 Brewin	N+1 Brewin	N+1 Brewin	N+1 Brewin	19/03/2012
Akers Biosciences	Rivington Street/Daniel Stewart	Daniel Stewart	Daniel Stewart	Daniel Stewart	20/03/2012
Mwana Africa	Liberum	Ambrian/XCAP	Liberum	Ambrian	20/03/2012
Trakm8	finnCap	Arbuthnot	finnCap	Arbuthnot	20/03/2012
Braveheart Investment Group	Merchant Securities/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	21/03/2012
Phorm Inc	Liberum/Mirabaud	Mirabaud	Liberum	Canaccord Genuity	21/03/2012
Billing Services Group	finnCap	Evolution	finnCap	Evolution	23/03/2012
Caza Oil & Gas Inc	VSA/Cenkos	Cenkos	Cenkos	Cenkos	23/03/2012
DCD Media	finnCap	Evolution	finnCap	Evolution	23/03/2012
Oak Holdings	Rivington Street	Cairn	Cairn	Cairn	23/03/2012
Niche Group	Canaccord Genuity/Daniel Stewart	Canaccord Genuity/Daniel Stewart	Deloitte	Daniel Stewart	27/03/2012
Webis Holdings	Merchant Securities	Evolution	Merchant Securities	Evolution	27/03/2012
Shanta Gold Ltd	Liberum	Fairfax IS	Liberum	Fairfax IS	28/03/2012
Jupiter Energy	finnCap	Evolution/Renaissance Capital	finnCap	Evolution	29/03/2012
OMG	Singer	Evolution	Singer	Evolution	30/03/2012

company news

Monitise snaps up US rival to strengthen mobile banking position

Mobile banking technology *www.monitise.com*

Mobile banking technology services provider **Monitise** has strengthened its position in the North American market by acquiring Clairmail, which claims to be the third-largest supplier of mobile banking services in the US.

Monitise is paying $173m (£109m) in shares at 35p each for Clairmail, which has one-third of the top 50 North American financial businesses as its customers. The two companies process more than $10bn of payments and transfers each week.

The takeover still requires US regulatory approval but it should be completed by the end of June. The acquisition not only increases Monitise's market share but also brings additional distribution options and widens its product range. Clairmail has a direct sales force while Monitise has been selling in North America through Visa and FIS. Clairmail also brings additional products and services to sell. The combined group will have 13m users but this is still a small fraction of the number of customers that their clients have.

Around 9% of the consideration shares will not be issued until up to 18 months after the deal completes. One of Clairmail's shareholders, Norwest Ventures, has the right to appoint a director to the Monitise board.

> Monitise is expected to reach profitability in 2013-14

MONITISE (MONI)			38.5p
12 MONTH CHANGE %	+ 46.7	MARKET CAP £M	309.9

Clairmail is being acquired at an enterprise value of 5.5 times prospective revenues for the current financial year. Monitise is still expected to reach profitability by the year to June 2014.

Monitise is expected to have cash of £21.9m at the end of June 2012 - assuming the acquisition has been completed. The additional cash outflow from taking on Clairmail means that cash is forecast to fall to less than £7m at the end of June 2013 but Monitise should have enough cash to get it to profitability.

Globo seeks to focus on fast-growing mobile sector

Mobile marketing software *www.globo.gr*

In the past year, **Globo** has evolved into a mobile phone technology-focused business. This part of the business is generating the majority of group revenues for the first time and it is expected to continue to grow rapidly.

The Greece-based e-business software revenues slumped by one-fifth to €17.5m but Globo's total revenues jumped from €30.9m to €45.3m. Mobile revenues soared from €5.27m to €25.3m in 2011, with most of the rest coming from telecom services. Underlying pre-tax profit increased from €4.7m to €12.3m.

Globo generated €5.01m of cash from its operations as increasing debtors ate into the profit generated. There was €14.5m of capital investment with nearly all of this going on product development. Net debt was €854,000 at the end of 2011.

GLOBO (GBO)			24.75p
12 MONTH CHANGE %	+ 51.2	MARKET CAP £M	73.2

The CitronGo! and GO!Social products have 1.4m subscribers and this is forecast to treble by 2014. These products enable mobile phone users to access email and social networking sites over their phones. The Go!Enterprise server product was launched in November so it only generated €2m last year but it should be a more significant revenue generator in 2012. This product widens the scope for revenues.

Globo is contemplating selling its e-business software operations so that it can concentrate on its mobile operations. The contribution from the Greek operations will fall to less than one-fifth of the gross profit in 2012.

House broker Daniel Stewart forecasts a 2012 profit of €16.6m. The shares are trading on less than seven times prospective 2012 earnings. Excluding the Greek operations, Daniel Stewart estimates Globo is worth 119.6p a share, which is more than four times the current share price.

company news

Purchase of established engineering businesses transforms Corac

Compressor technology *www.corac.co.uk*

Compressor technology developer Corac, which has been on AIM for more than a decade, has acquired two profitable businesses. They are long-established engineering companies with strong positions in their markets and this will transform Corac from a technology developer into a commercially focused business.

Corac paid £10.75m to Wellman Group for the two businesses – equivalent to 3.6 times 2011 EBITDA. A placing at 10.5p a share raised £6.35m before expenses and the rest of the cash came from Corac's existing cash pile. There was £15.3m in the bank at the end of 2011.

The cash outflow from the enlarged group should be much lower even though Corac will continue to invest significant sums in technology development. There could even be opportunities to use Corac's accumulated tax losses.

The acquisition will transform Corac

Portsmouth-based Wellman Defence supplies atmosphere management systems for submarines and surface ships. The outlook for the market for submarines is better than for the defence sector as a whole. Revenues grew from £9.1m to £10.4m in 2011, with 49% of revenues coming from recurring service contracts. The order book is worth more than £10m. EBITDA improved from £1.5m to £2.4m.

Manchester-based Wellman Hunt Graham manufactures heat-exchange equipment. Last year, revenues grew from £6.9m to £9.4m, while EBITDA doubled to £600,000. The order book is worth more than £6m.

CORAC(CRA)			9.5p
12 MONTH CHANGE %	- 33.3	MARKET CAP £M	23.5

One of the big attractions about this business is its oil and gas related customers, such as BP, Shell and Chevron. This could prove useful for Corac's downhole gas compression (DGC) and in-pipe gas compression technology, which helps oil companies to extract more oil and gas from their wells. The reliability of the electronics of the DGC technology is improving and field trials with existing partners should commence later this year. Corac could start to generate commercial revenues from DGC next year.

The acquired businesses also have manufacturing expertise which could help Corac.

Buoyant demand for KBC services

Refinery consultancy and software *www.kbcat.com*

Pressure on refining margins in the developed world and growth in refining capacity in the developing world are pushing KBC Advanced Technologies forward even though the economic background is tough. KBC provides consultancy and software services that help refineries to operate more efficiently.

Refineries in mature markets are trying to improve margins, while M&A activity also provides work for KBC. The order book is worth £49m, with around two-thirds of this relating to 2012.

KBC produced record results in 2011. Revenues grew 5% to £55.7m while underlying profit moved ahead by one-fifth to £5.9m. All the growth in revenues came from consultancy, with software sales slightly lower as purchases were delayed. The three-year contract with Mexican state oil company PEMEX was an important contributor and will be again this year.

KBC ADVANCED TECHNOLOGY (KBC)			82.5p
12 MONTH CHANGE %	+ 20	MARKET CAP £M	46.2

There was £5.8m in the bank at the end of 2011. This figure should rise significantly this year and net cash could double in two years. The dividend has been increased by 22% to 2.25p a share.

KBC would like to supplement organic growth with acquisitions. These could be in areas similar to refining, such as petrochemicals.

A volatile oil price and rising demand for oil are good news for KBC. On top of this the software dispute with a competitor has been resolved and KBC can take full advantage of the latest version of its Petro-SIM modelling software, which was launched last year. Cenkos forecasts a 2012 profit of £7m. The prospective 2012 multiple is just over 10.

company news

Lombard Medical awaits US FDA approval for Aorfix medical device

Medical devices *www.lombardmedical.com*

Lombard Medical Technology is hopeful that it will gain US FDA approval for its Aorfix medical device this year. EU revenues of the Aorfix abdominal aortic aneurysm stent continue to grow but the US accounts for around 50% of the global market for the product.

Aorfix is an endovascular stent graft for the treatment of abdominal aortic aneurysms, which are a balloon-like enlargement of the aorta that can rupture and cause death. The selling point of Aorfix is that it can handle bends in the aorta. Lombard has also developed the Aorflex delivery system for Aorfix.

Last year, sales in Germany more than trebled and sales in Italy more than doubled. The more mature UK market still grew revenues by 26%. Overall revenues grew from £3m to £4m in 2011, while the loss increased from £8.7m to £10.6m. There was a £850,000 write-off on an investment in another medical technology business.

The US accounts for around 50% of the global market

Net cash was £7.5m at the end of 2011. Lombard believes that the £3m convertible loan issued to Investec earlier this year will provide enough cash to cover the period until Aorfix gains FDA approval.

Once FDA approval is announced Lombard can raise the second tranche of cash from its 2010 fundraising. The first tranche was £12.2m net of expenses and the second tranche will be £13.6m. The initial fundraising was at 0.7p a share.

Earlier this year there was a 200-for-one share consolidation in order to stop the stock being seen as a penny share and reduce the bid-offer spread. The second tranche will be priced at 140p a share – equivalent to 0.7p previously – or at the closing price on the day prior to the announcement that the FDA Milestone Requirements have been satisfied – broadly approval for product and labelling for certain specifications. This cash will be enough to finance the US launch of Aorfix.

LOMBARD MEDICAL TECHNOLOGIES (LMT)			146.5p
12 MONTH CHANGE %	- 45.7	MARKET CAP £M	29.6

The US clinical trial is complete and four of the six pre-market approval modules have been approved. FDA approval for Aorfix is expected in the second quarter. Lombard has applied for regulatory approval in Japan and a clinical study continues in France in order to gain approval for reimbursement.

House broker Canaccord Genuity forecasts a loss of £11.8m for 2012.

Sphere Medical seeks Proxima partner

Medical equipment developer *www.spheremedical.com*

Monitoring and diagnostic equipment developer **Sphere Medical** joined AIM last November. Sphere raised £14m in its flotation and there is still £12m in the bank. That is much better than expected.

Sphere generated nominal revenues from the sale of a Pelorus 1000 diagnostic device in 2011. The core product, though, is the Proxima blood analyser. The main objective for 2012 is securing a partner for the Proxima generation 3 product. The market is thought to be worth more than $200m. Sphere has gained approval for the second-generation product in the EU and the EU CE Mark for the generation 3 product is likely to spark serious discussions with partners. Edwards has right of first refusal.

SPHERE MEDICAL (SPHR)			72.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	26.7

The cardiopulmonary bypass monitor is on track to get its CE Mark, as is the Pelorus. Partnering discussions are underway for the Pelorus.

In 2011, Sphere lost £4.9m before flotation costs and a similar loss is expected this year. Breakeven is forecast for 2014. House broker Peel Hunt sees potential for the sale of 2m sensors a year by 2015-16, which is equivalent to 15% of the market.

Share promises 20% annual dividend growth

Private client broker *www.shareplc.com*

Dividend

Retail broker Share believes in a progressive dividend policy even in a year when reported profit declined. The latest dividend was 20% higher at 0.36p a share – in line with the stated policy. The company pays one dividend each year. Share joined AIM in May 2008 and it paid 0.22p a share for that financial year.

Edison Investment Research forecasts a rises in the dividend to 0.43p a share for 2012 and 0.52p a share for 2013. This continues the 20% a year dividend growth policy. The yield is fairly modest at the moment but investors' will get strong growth in income.

Share has a strong balance sheet so there is plenty of scope to continue the progressive dividend policy. There is £11m in the bank and capital adequacy is six times the required level.

Business

Share boss and founder Gavin Oldham is a great believer in share investment and he would like to see more done to widen share ownership. Share owns broker The Share Centre and trading platform Sharemark. The Share Centre is just over two decades old and it has 220,000 customers, with more than 50,000 of these shareholders in the holding company. Shareholders with 500 shares or more get a 30% rebate on internet dealing commissions.

Share believes that its service and value for money will help it to grow substantially and it is gaining market share. It has £1.5bn under administration and trail commission is only 3% of revenues so the Retail Distribution Review (RDR) changes relating to a move away from commissions will not have a significant effect on its business. In fact, small investors may find it harder to get advice and turn to Share's online services. Four-fifths of transactions are currently online.

SHARE (SHRE)	
Price	22.5p
Market cap £m	32.3
Historical yield	1.6%
Prospective yield	1.9%

Reported revenues and profit fell last year but the underlying performance improved. Share took out an interest rate floor policy which ended in November 2010. While this policy was in force Share received much higher interest rates on its cash. This means that the 2011 figures did not benefit from this policy, hence the decline in overall revenues from £15.6m to £14.3m. Share says underlying revenues improved 7% to £14.3m. The underlying operating profit moved ahead from £1.1m to £1.6m.

As revenues grow the cost base should not and margins will improve. Edison forecasts a 2012 profit of £2.3m on revenues of £15.4m, and a jump in profit to £3.1m on revenues of £16.8m in 2013.

Share has a long-term strategy to become an independent retail services provider that is large enough to be included in the FTSE 350 index. The company would have to be at least ten times its current market capitalisation for that to happen but Oldham points to the success of Hargreaves Lansdown. New products and distribution channels, such as mobile, will help.

Dividend news

Churchill China announced an unchanged total dividend of 14p a share for 2011 but it signalled the possibility that it will increase the dividend this year for the first time since 2008. The shares currently yield 4.7%. Sales to the hospitality sector continue to grow despite tough markets while Churchill is completing its exit from lower-margin supermarket contracts. Management reckons demand for English-style crockery is rising, which is good news for Churchill. Overall revenues slipped slightly from £43.7m to £42.3m, while pre-tax profit improved from £2.3m to £2.7m.

Vet practices operator **CVS** is reducing its borrowings and it has decided to start paying dividends. A maiden interim dividend of 1p a share has been declared and the final will be at least as much. In the six months to December 2011, revenues were 7% ahead at £54m, while underlying pre-tax profit rose by one-quarter to £2.7m. Net debt was £31.6m at the end of 2011. CVS has negotiated a new £36m five-year term loan facility and a £4m overdraft. The interest rate is lower and there are no capital repayments for two years. CVS has a 10% market share and believes that there are more acquisition opportunities.

Engineering design software supplier **Delcam** increased its 2011 dividend by more than expected. The total dividend rose from 5.5p a share to 7p a share. Revenues grew from £36.7m to £41.9m, while underlying pre-tax profit improved from £2.5m to £3.7m. Automotive and aerospace have been strong markets, as has healthcare. The business is highly cash generative and Herald invested £862,000 for a 3% stake. There is net cash of £10.1m, although that includes £700,000 of restricted cash relating to EU grants. WH Ireland forecasts a 2012 profit of £4m, up from £3.7m in 2010, and a 7.5p a share dividend.

expert views

Expert view: The broker

Barryroe delivers for Lansdowne

By WILL ARNSTEIN and EMILY ASHFORD

The clear highlight for March was the flow test results from the Barryroe appraisal well, where Lansdowne Oil & Gas has a 20% working interest.

Two tests were successfully undertaken, with results exceeding pre-drill expectations and the commercial threshold. Further appraisal may be required but the results were sufficiently good to substantially de-risk the geological risks of the Basal Wealden reservoir. A material resource upgrade also seems likely once the full results have been integrated with the newly acquired 3D seismic. Despite the strong results, the shares declined on profit taking and have since under-performed its partner in the well, Providence Resources, by 26%, creating a good buying opportunity. The NAV estimate for Lansdowne increased by 21.8% to 152.1p a share.

Sound Oil was hit by an unsuccessful test on the Casa Tiberi-1 well in Italy. This was a second test on Casa Tiberi and it flowed gas at a stabilised rate of just 0.28mmcfpd. The NAV was reduced by 6.9% to 2.37p a share.

March performance

After a stellar performance in February, our coverage group ended March unchanged on average, outperforming both the FTSE All-Share by 1.3% and the FTSE 350 Oil & Gas index by 5%. Northern Petroleum (+26%) and Lochard Energy (+11%) were the best-performing AIM stocks we cover during the month.

Northern was buoyed up following a bid approach for Wessex Exploration, which effectively valued its 50% interest in NorthPet Investments at £57m – significantly higher than expectations. As a result, we upgraded our target price to 120p and recommendation to Buy (from Hold).

Fully listed Tullow Oil also delivered a notable outperformance, rising by 4%, boosted by solid full-year results and an oil discovery at the play opening Ngamia well in Kenya. While it is unlikely to be a large discovery, Tullow holds a sizeable acreage position in what could become an exciting area. Drilling is continuing and we expect a further update in April.

> Northern was buoyed up following a bid approach for Wessex Exploration

Fully listed Premier Oil was among the worst-performing stocks during March following slightly disappointing results and a major incident at the Total-operated Elgin field. While there has been no impact on Premier's operations, the incident again demonstrates the risks and costs of ageing North Sea infrastructure. Tax changes in the budget and well results from Annao Deep and K-30 provided some positive news flow, but were relatively immaterial to our valuation.

NAVs

We make a modest 1.1% downward revision to our NAVs from the last published numbers for the companies that we cover. The largest downgrades for AIM companies were for Aurelian (-7.4%) and Europa (-8%) reflecting adjustments to our numbers for acreage relinquished in Romania.

Looking ahead

We expect nine well results during April, of which we consider two to be high impact.

The first of these is likely to be the 325mmbbl Nunya prospect currently being drilled by ENI offshore Ghana. Fully listed Afren has a 35% working interest in the licence and benefits from a cost carry. At the time of its full-year results Afren reported that the well had successfully drilled through a high-pressure zone in the top of the Upper Cretaceous reservoir that had led to the abandonment of the original Cuda-1x well. Initial results are expected by the middle of the month, with the prospect valued at 71p/share net to Afren, fully unrisked.

> We expect nine well results during April, of which we consider two to be high impact

The other high-impact well is Jatayu-1. Sound Oil has a 20% interest in the well, targeting 290Bcf and results are expected by month end. Both wells are considered high risk.

Results are also due near the end of the month from Ascent Resources' PEN-105 production well in Hungary (35% working interest) but they are not likely to have a significant impact.

WILL ARNSTEIN is finnCap's research director covering the oil and gas sector and EMILY ASHFORD is an oil and gas sector analyst.

feature

Corporate governance is key to Chinese investments

Good corporate governance is important for Chinese companies in order to regain the trust of investors following recent bad publicity. Frank Lewis is an experienced non-executive director who has been involved with Chinese companies for five years and he has thoughts on how they should approach this requirement.

Chinese investments are out of favour with many investors thanks to the disappointing performance of many quoted Chinese companies and bad publicity about the accounting and corporate governance of others.

A number of Chinese companies have left AIM in recent years. Some, such as solar cells manufacturer Jetion, have felt that the quotation was not worth the cost in terms of money and management time. Many of the companies that chose to cancel their AIM quotation did not raise the cash they expected to when they joined AIM and this meant that they got off to a bad start. Others, such as cement supplier West China Cement, have moved to other markets. West China Cement switched to the Hong Kong Stock Exchange and it did not believe it was worth maintaining two quotations.

It is not just Chinese companies on AIM that have done badly and failed to come up to modern corporate governance standards.

In fact, many of the worst examples have been quoted on the US and Canadian markets. One of the most recent scandals has concerned TSX-listed Chinese forestry company Sino-Forest Corp, which has been accused of misrepresenting its assets. This is a company that was once worth more than $6bn.

Ernst & Young has resigned as auditors and the Toronto Stock Exchange intends to delist Sino-Forest on 9 May because of its "failure to meet the continued listing requirements of the exchange".

Scepticism

Both institutional and private investors are concerned about Chinese companies. They have been bombarded with bad publicity about the companies and the allegedly inaccurate financial information published by some of them. There is scepticism about whether accounts are really true and whether the assets exist in some cases.

Even some of the Chinese companies that have a good track record have been hit by bad publicity. Oranges producer Asian Citrus has always been careful to keep the London market informed and management regularly visits the UK to meet investors and the media. Its association with an investor involved in other scandals has not helped.

Lewis says that it is a two-way street and UK advisers and investors need to respect and understand Chinese culture

Governance

Frank Lewis is an experienced non-executive director who believes that good corporate governance is vital and this is even more important for Chinese companies given their recent history. He has been chairman or non-executive director of a number of AIM companies including three Chinese companies. He is currently chairman of Asia Ceramics and a non-executive director of China Africa Resources.

China Africa Resources was set up by AIM-quoted Weatherly International and East China Mineral Exploration and Development Bureau to develop the Berg Aukas lead, zinc, vanadium project in Northern Namibia. In the longer term, the company may buy other assets from its shareholders.

Asia Ceramics distributes ceramic wall and floor tiles, sanitary ware and other home improvement products to the domestic Chinese market. Asia Ceramics is based in Foshan City, Guangdong Province in China. Foshan is the eleventh largest city in China and the focus of the Chinese ceramics industry.

Not all of Lewis' companies have had a straightforward history. His other Chinese company directorship was of mobile phone manufacturer ZTC Telecommunications. Chaohui (aka Charles) Huang, the boss and major shareholder of ZTC, disappeared at the beginning of November 2008 and the local authorities sealed the factory. The operations were shut and Lewis sorted out the company, which was renamed China Evoline. It looked for a suitable reverse takeover target but failed to find one and was wound up.

Culture

Lewis argues that Chinese businessmen suffer "a big culture shock" when they realise the extent of the information they have to provide when they float their company, as well feature

as the ongoing information they need to provide about the business.

However, Lewis says that it is a two-way street and UK advisers and investors need to respect and understand Chinese culture.

It is important that at least some of the directors speak English and it also helps if they have worked in the West and understand the business culture.

Chinese companies need to understand that the suitability of the directors has to be investigated and there need to be competent and independent non-executive directors on the board. This is good for investors but it is also good for the company because these non-executive directors can provide input to the business.

"The concept of independent non-executive directors is not normally initially appreciated by the executive directors, and neither is what value they can add to the progress and credibility of the company", argues Lewis. It is also important that there is at least one UK-based non-executive. "They need to appreciate that these independent directors will have to communicate with advisers, as well as shareholders in certain circumstances, and ensure good corporate governance. This would generally be different to the way Chinese companies normally operate."

"Non-executive directors who have experience of working with Chinese companies can appreciate the concerns and issues of the directors because of the cultural issues and lack of experience of UK listed companies, and can help remove the concerns in a respectful way. Experienced non-executive directors can also assist with the learning curve of how listed companies should operate in the UK, communicate with advisers and deal with issues like price-sensitive information", says Lewis.

Lewis can speak from experience, having been involved with Chinese companies for five years. "My personal experience is that generally one has to earn the respect and trust of your Chinese colleagues on the board, and when there is mutual respect they will take advice on running a listed company in the UK and comply with the rules including corporate governance."

"It is very important for companies wishing to do an IPO to appreciate that the IPO is only the beginning and not the end of the process in terms of success and making money for shareholders," adds Lewis.

New issues

Despite the bad publicity and the fact that many investors are not interested in Chinese companies at the moment there are still ones that are floating on AIM.

China-focused integrated mining services group Rare Earths Global managed to attract investors because rare earth metals have a high profile at the moment because of their scarcity and the fact that most of the current supply is from China. The company raised £5.52m, net of costs of £880,000, at 247p a share in order to provide working capital.

Ivor Shrago is the chairman of Rare Earths Global and he has legal and investment experience in the UK and Hong Kong. He has been a director of other Chinese companies on AIM, including PAQ International, which chose to drop its AIM quotation.

The latest Chinese company to join AIM is sportswear brand owner Naibu Global International. Naibu raised £6m at 124p a share but £1.65m of this went on flotation costs. Naibu initially planned to raise up to £50m at the same share price.

Naibu has three non-executive directors who each have experience in the UK and Asia. Giles Elliott is a former chief executive of UK broker Bridgewell and fellow non-executive Stephen Cheung also worked at the broker. However, there is no independent chairman. Co-founder and 46.75% shareholder Huoyan Lin is executive chairman. Elliott is the only other director with a shareholding.

Liquidity

One of the ways that many AIM companies do not help themselves is that they have too narrow a shareholder base and Chinese companies can be some of the worst offenders. Seven shareholders still own more than 90% of Naidu, while Rare Earths Global's chief executive, Simon Ong, owns 77% of the company.

Of course, there is no requirement for any free float on AIM but companies need to understand that just because they can float with very limited liquidity it does not mean that it is a good idea.

The rapid rise and subsequent slump in the share price of Dongfang Shipbuilding showed how volatile a share price can be when there is a limited number of shares available to trade. It undoubtedly meant that the share price reached heights that it would not have done had there been a more liquid market. There was a precipitous share price decline when shipbuilding contracts failed to materialise. Northland subsequently resigned as nominated adviser and the shares were suspended.

The quadrupling of the Rare Earths Group share price in the fortnight following its flotation has been exacerbated by the tightly held share base.

Chinese companies can still float on AIM but there need to be examples of good long-term performance to regain the interest of some investors. Short-term price leaps are not the way to do this.

Experienced non-executive directors can also assist with the learning curve of how listed companies should operate statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	28.5	11.5
Basic materials	17.2	15.2
Financials	15.8	22.2
Industrials	10.9	18.9
Technology	7.7	9.6
Consumer services	6.4	9.7
Health care	5.4	5.7
Consumer goods	5.8	5.1
Telecoms	1.6	1.1
Utilities	0.9	1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	795.06	-11.6
FTSE AIM 50	3164.93	-8.5
FTSE AIM 100	3630.96	-11.2
FTSE Fledgling	4582.16	-7.8
FTSE Small Cap	3140.58	-3.7
FTSE All-Share	3002.78	-2.8
FTSE 100	5768.45	-3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	255
£5m-£10m	156
£10m-£25m	229
£25m-£50m	200
£50m-£100m	133
£100m-£250m	92
£250m+	57

KEY AIM STATISTICS

Total number of AIM	1,122
Number of nominated advisers	59
Number of market makers	58
Total market cap for all AIM	£70.9bn
Total of new money raised	£77.5bn
Total raised by new issues	£34.9bn
Total raised by secondary issues	£42.6bn
Share turnover value (2012)	£9.28bn
Number of bargains (2012)	1.14m
Shares traded (2012)	52.51bn
Transfers to the official list	161

TOP 5 RISERS OVER 30 DAYS

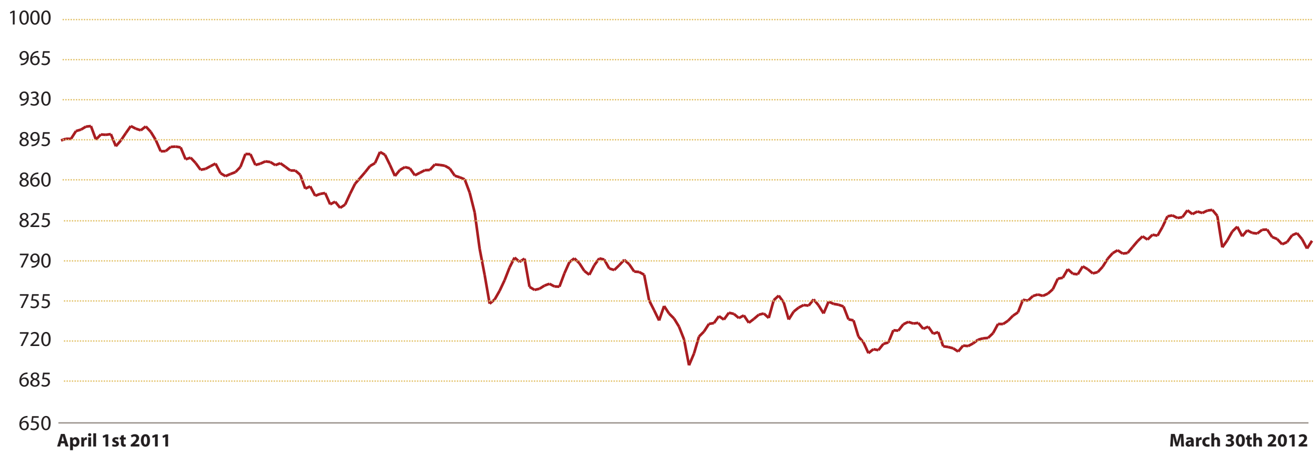
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Optare	Engineering	0.8	+146.2
Oxus Gold	Mining	3.27	+121.7
Scancell Holdings	Healthcare	11.75	+108.9
Carpathian	Property	€ 0.03	+85.7
Stramin Global Resources	Investment company	3.5	+64.7

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Billing Services Group	Technology	2.5	-75.6
Managed Support Services	Shell	0.2	-70.4
Noventa Ltd	Mining	6.5	-55.9
Xtract Energy	Oil and gas	1.05	-49.4
Andes Energia	Energy	43.5	-47.4

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st March 2012, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus. finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. This helped finnCap become the fastest growing broker in both 2009 and 2010. finnCap is ranked as the number two broker/nominated adviser on AIM by overall client numbers. It is number one ranked in healthcare, technology and industrials sectors.

finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. It has also been shortlisted for best research at the AIM Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for two years running.

finnCap has a strong track record of raising money for clients and it has advised on £280m of fundraisings and more than £300m of M&A transactions since April 2009. More than £140m was raised for clients in the year to April 2011.

Clients have a combined market value of around £3bn, with an average market capitalisation of approximately £40m. The top 20 clients have an average market capitalisation of more than £100m.

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