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AIM JOURNAL

In this issue

NBNK poaches Hoffman from Northern Rock

AIM shell NBNK Investments has poached Northern Rock chief executive Gary Hoffman to be its boss as it continues to search for banking acquisitions.

Northern Rock insisted that Hoffman should not officially become chief executive of NBNK until 1 May 2011. This caused controversy because it meant that the state-owned bank would have been paying Hoffman, who earns £700,000 a year plus pension contributions and bonuses, for six months. Hoffman has waived his entitlement to these payments.

Hoffman joined Northern Rock from Barclays, where he had been head of Barclaycard and the retail banking side. This retail banking experience is the attraction of Hoffman. NBNK is thought to be keen to buy the 600-branch network being sold by Lloyds.

He won't be buying Northern Rock, though, at least not initially. NBNK has agreed not to make a bid for Northern Rock before 1 November 2011.

NBNK raised £50m at 100p a share when it joined AIM in August. The board already includes Lloyd's of London chairman Lord Levene, who holds the same role at NBNK. NBNK will need to raise a lot more cash when it finds a bid target but it has a long list of institutional investors, including Invesco, Aviva, Baillie Gifford, F&C, Blackrock and JP Morgan, which have the ability to back a deal if it makes sense.

GLIF plans Main Market swoop

AIM-quoted Greenwich Loan Income Fund Ltd (GLIF) wants to merge with fully listed investment company Asset Management Investment Company (AMIC). AMIC shareholders will be offered cash or shares for their shareholding. The enlarged group would have gross assets of £200m – assuming full take-up of a cash offer.

GLIF is a Guernsey-registered closed-end investment company whose focus is paying a predictable dividend without harming its capital. It mainly invests in the US senior secured loan market but it has been looking for income-enhancing acquisitions. AMIC is an investment trust investing in asset management companies. GLIF is likely to offer an 8% discount to AMIC's NAV. It believes that cost savings can be made by combining the companies.

Advance UK Trust, which is being liquidated, owns 13.3% of AMIC. The trust has provided an irrevocable commitment to vote in favour of any deal. Along with two other shareholders, GLIF has irrevocables over 42.8% of AMIC's share capital. QVT Financial owns 28.7% of AMIC via a CFD.

The plan would be for the enlarged group to obtain a Channel Islands Stock Exchange listing in addition to its AIM quotation.

Takeovers of Main Market companies by their AIM-quoted counterparts are still rare but they do happen. In recent years, healthcare services provider Synergy Healthcare bought sterilisation services provider Isotron after a contested bid and Vectura acquired fellow drug delivery company Innovata. Both companies subsequently moved to the Main Market.

general news

Takeover activity increases in mining sector

Takeover activity is heating up in the mining sector but there appear to be plenty of new entrants willing to replace the companies leaving the market.

African Diamonds has agreed a C$82m all-share bid from TSX Venture Exchange-quoted Lucara Diamond Corp. For each share that they own, African Diamonds shareholders will receive 0.8 of a Lucara share and one share in Botswana Exploration, which itself plans an AIM flotation.

Chromex Mining has agreed a bid from Synergy Africa. The 36.5p a share cash offer values the chrome producer at £37m. Synergy's 51% shareholder, Ruukki, owns processing facilities and Chromex will provide a secure source of chrome ore.

The £9.9m bid for Gladstone Pacific Nickel by 50% shareholder QNI Resources continues but with nominated adviser Grant Thornton resigning it appears that Gladstone will be leaving AIM however many more shares the bidder picks up. The only independent director of Gladstone, Dominic Martino, has advised shareholders to reject the bid unless they are short-term investors. An independent expert says the bid is not fair and not reasonable.

Steel maker and miner Severstal is negotiating a cash bid for uranium miner Berkeley Resources. Berkeley's board says that it would definitely recommend a bid of A$2 (123p) a share. Berkeley is raising A$4.8m at A$1.45 a share in order to provide funding over the period of the potential bid process. Berkeley signed a non-binding agreement with the Korea Electric Power Corporation (KEPCO) to finance and develop the Salamanca uranium project. However, a Severstal bid would render this agreement redundant and negotiations have been suspended.

Africa-focused mining companies are particularly keen to join AIM at the moment. Zimbabwe-based mining house Metallon Gold Zimbabwe has indicated that it wants to join AIM before the end of the year in order to raise cash to reopen five of its mines. Metallon is a subsidiary of UK-based Metgold.

Zanaga Iron Ore plans to raise cash to help it develop its Zanaga iron ore project in the Republic of Congo. Xstrata is spending up to $106m on a pre-feasibility study in return for an option over 50% plus one share in Zanaga's subsidiary that owns its exploration licences. If it takes up the initial option it has to spend $100m on a full bankable feasibility study. If Xstrata does not exercise its initial option then Zanaga will use the cash it raises to help it go alone.

Mining companies recently joining AIM include African Mining & Exploration, CIC Mining Resources and Paragon Diamonds, which was spun out of AIM-quoted Obtala Resources.

AIM new issues show signs of resurgence

New issues activity in general is picking up and many of the new entrants are international companies.

Four Indian companies and two Chinese companies have floated in the past two months. All of them have gone to a premium to their flotation price and Indian call centre operator iEnergizer is nearly 40% above its 116p placing price, while Chinese security company Global Lock has gained more than one-third on its introduction price of 15p.

Cleantech seems to be making a comeback, with US-based water purifier HaloSource and India-based wind power generator Caparo Energy floating in recent weeks.

ASX-listed Wasabi Energy, whose main interest is in a business commercialising waste heat technology using the Kalina Cycle, is joining AIM at the beginning of December. Wasabi is raising £4.9m (A$7.9m) at 1.1p (A$0.018) a share, which will value Wasabi at £27.8m (A$44.9m). The current ASX share price is A$0.023.

In September, LED technology manufacturer ProPhotonix said it was coming to the market at the end of October but it has not appeared yet. It has included $705,000 of AIM admission costs in its figures for the last two quarters.

There are some UK companies coming along. Cambridgeshire-based potato supplier Produce Investments is on course to raise £15m this month. Dental equipment developer 3D Diagnostic Imaging and oil explorer Wessex Exploration are planning to switch from Plus-quoted to AIM.

All this suggests that there could be a sustained recovery in the new issues market but these signs have appeared before and they have proved premature.

Canadian broker snaps up Astaire Securities

Canadian broker NCP Northland Capital Partners has wasted little time in changing the name of Astaire Securities to **Northland Capital Partners Ltd** following its acquisition of the AIM broker on 15 October.

NCP already has offices in Toronto and Vancouver and is keen to expand internationally. Astaire Securities has more than 40 clients and its recent focus has been on the oil and gas, mining and technology sectors. NCP does not have exposure to oil and gas but it does also specialise in life sciences and infrastructure. Stuart Lane has become executive chairman of the UK business.

AIM-quoted Astaire Group sold Astaire Securities to NCP for £2.45m and it expects to lose £800,000 to £1.4m on the transaction. There will be £450,000 put into an escrow account for 12 months to cover warranty claims.

Astaire Securities contributed £2.9m of the Astaire Group's income of £6.65m in the first half of 2010. The broking business lost £635,000.

Astaire Group still owns the Rowan Dartington private-client business but it is also up for sale. Litigation against the group which relates to Izodia is against a separate subsidiary and intermediate holding company, Corporate Synergy, and that stays part of Astaire Group. Astaire Securities has paid £37,000 to cover claims against it by Izodia. The cash paid for the broking business will be retained in Corporate Synergy to cover these litigation claims so Astaire Group shareholders will not be getting any cash in the short term.

The acquisition of Astaire Securities came just after **Alexander David Securities** ended bid talks with fellow broker Hoodless Brennan. Astaire Group itself pulled out of a £3.61m takeover of Hoodless Brennan earlier this year after it discovered accounting problems at its Rowan Dartington subsidiary which meant that it did not have the financial strength to go ahead.

Fox-Davies Capital is applying to become the latest nominated adviser.

There is also activity in the market maker community. **Schneider Trading** has recently commenced market making in AIM shares. According to the September 2010 AIM statistics Schneider makes markets in 32 AIM companies. They are oil and gas, mining and cleantech companies. The firm is part of Schneider Group, which was founded in 1998, and has offices in London, Paris, Nicosia and Singapore.

Schneider is set to be followed by Russian investment bank **Renaissance Capital**, which is thought to be planning to begin market making in AIM-quoted natural resource companies.

ADVISER CHANGES - OCTOBER 2010

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Bglobal	Matrix/Charles Stanley	Charles Stanley	Charles Stanley	Charles Stanley	01/10/2010
Elephant Capital	Arden/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	01/10/2010
Highland Gold Mining Ltd	Matrix	Matrix/JPMorgan Cazenove	Matrix	JPMorgan Cazenove	01/10/2010
Alexander David Group	Alexander David	Alexander David	Cairn	Strand Hanson	04/10/2010
Mediterranean Oil & Gas	WH Ireland	Ambrian/WH Ireland	WH Ireland	WH Ireland	04/10/2010
Noventa Ltd	Canaccord/Religare	Religare	Religare	Religare	04/10/2010
TyraTech Inc	Brewin Dolphin	Nomura Code	Brewin Dolphin	Nomura Code	04/10/2010
Clipper Windpower	Goldman Sachs	JPMorgan Cazenove	Goldman Sachs	JPMorgan Cazenove	06/10/2010
European Nickel	Evolution/Mirabaud	Mirabaud/Canaccord	Evolution	Canaccord	06/10/2010
Medilink-Global UK	Daniel Stewart/Allenby	Allenby	Allenby	Allenby	06/10/2010
Berkeley Mineral Resources	Seymour Pierce	Allenby	Seymour Pierce	Seymour Pierce	07/10/2010
Biofutures International	Daniel Stewart	Daniel Stewart/Religare	Daniel Stewart	Religare	08/10/2010
Alexander Mining	Ambrian	Arbuthnot	Ambrian	Arbuthnot	11/10/2010
EMED Mining	Fairfax IS/Fox Davies	Fox Davies	RFC	RFC	11/10/2010
Otium Ventures	Daniel Stewart	Arbuthnot	Daniel Stewart	Arbuthnot	12/10/2010
Europa Oil and Gas	FinnCap	Astaire	FinnCap	Astaire	14/10/2010
Caza Oil & Gas Inc	Cenkos	Westhouse	Cenkos	Westhouse	18/10/2010
Interquest	FinnCap	FinnCap/Cenkos	FinnCap	Cenkos	18/10/2010
Triple Plate Junction	Daniel Stewart	Arbuthnot	Daniel Stewart	Arbuthnot	19/10/2010
Agriterra Ltd	Matrix/Seymour Pierce	Seymour Pierce	Seymour Pierce	Seymour Pierce	25/10/2010
GGG Resources	Collins Stewart	Westhouse	Westhouse	Westhouse	25/10/2010
Silverdell	FinnCap	Collins Stewart	FinnCap	Collins Stewart	25/10/2010
Utilico Emerging Markets Ltd	Westhouse	Arbuthnot	Westhouse	Arbuthnot	26/10/2010
Beacon Hill Resources	Renaissance/Astaire	Astaire	Astaire	Astaire	27/10/2010
Medavinci	XCAP/Zeus	Zeus	Zeus	Zeus	28/10/2010
Valirx	Hybridan	Hybridan/WH Ireland	Cairn	WH Ireland	29/10/2010
William Ransom	Daniel Stewart	Numis	Daniel Stewart	Numis	29/10/2010

company news

ASOS repeats its 2008 feat and regains AIM company of the year title

Online fashion retailer *www.asosplc.com*

ASOS is AIM company of the year for the second time in three years. This comes at a time when the online fashion retailer's market capitalisation has passed £1bn for the first time and it is making a concerted move into the US market.

Finance director Nick Beighton picked up the award at the AIM Awards dinner, which was held at the Old Billingsgate Market for the sixth year running and attended by more than 1.300 AIM participants.

> ASOS was valued at £12.3m at the time of its flotation in 2001

Then known as asSeenonScreen Holdings, ASOS joined AIM on 3 October 2001 less than one month after September 11th. Unsurprisingly, this wasn't a good time to come to the market. A placing raised £225,000 at 20p a share but there was only £95,000 of that left after expenses. At the same time it issued shares for a cash shell which had £350,000 of cash in its balance sheet. Part of the reason for acquiring the shell was the difficulty in raising cash from investors. The company was valued at £12.3m at the time of flotation. In the past two years, the ASOS share price has risen by more than 400%.

ASOS (ASC)			1417p
12 MONTH CHANGE %	+278.4	MARKET CAP £M	1,060.1

The ASOS website was launched in June 2000 so it wasn't much more than one year old when the company floated. In ten years, annual revenues have risen to £223m and they are set to move ahead to around £300m this year.

ASOS is on course to report an underlying profit approaching £30m in the year to March 2011, up from £20.3m last year.

ASOS is happy on AIM but now that it has passed the £1bn mark it is likely that the London Stock Exchange will try to persuade it to make the move to the Main Market.

Abcam boss gains entrepreneur award

Online retailer of research grade antibodies *www.abcamplc.com*

Abcam's chief executive and founder, Dr Jonathan Milner, has accepted AIM awards two years running. Last year, the online retailer of research-grade antibodies was made company of the year but this time Dr Milner was accepting an award that was purely for him. He is the 2010 AIM entrepreneur of the year following another highly successful 12 months for Abcam.

Revenues grew by one-quarter to £71.1m in the year to June 2010, helped by a 20% increase in the product range to more than 63,000 antibodies and related products. Pre-tax profit was 58% higher at £25.8m.

ABCAM (ABC)			1720p
12 MONTH CHANGE %	+90	MARKET CAP £M	618.7

Abcam has increased the percentage of its earnings that it pays out in dividends.

In 2008-09 it paid out 35% of earnings and this was increased to 37.5% last year. Total dividend increased by 65% to 20.03p a share. A five-for-one share split is planned for 15 November.

Trading is in line with expectations so far this year but Abcam does sound a note of caution in its AGM statement when it warns that it could be hit if governments reduce research funding. Even if this does not happen, analysts are forecasting a slowdown in growth rates over the coming years.

company news

Playtech gains international AIM recognition

Online gaming software *www.playtech.com*

PLAYTECH (PTEC)			447.75p
12 MONTH CHANGE %	+ 28.2	MARKET CAP £M	1,086.1

Asia Pacific generated the majority of the growth

International company of the year award winner **Playtech** is a highly profitable supplier of online and machine-based gaming software to such companies as William Hill, Betfair and Ladbroke.

BVI-registered Playtech, which was founded in Estonia in1999 but is now headquartered in the Isle of Man, has been quoted on AIM for more than four years. This is a high-margin business. Pre-tax profit was €37.7m on revenues of €72.9m in the first half of 2010. The profit includes a €15m contribution from associate company William Hill Online. Third-quarter revenues were 17% higher, with the growth coming from casino and bingo software. Poker revenues declined. Asia Pacific generated the majority of the growth.

Playtech has bought 10% of fully listed Sportech, which has been cleared as a gaming operator in New Jersey, Maine and Connecticut, and this provides an additional growth opportunity.

Last year's total dividend was €0.183 a share, covered just over two times by earnings, and the prospective yield is more than 4% - although it depends on the exchange rate used to convert the individual dividends into pence.

Other awards

Best Performing Share
Software Radio Technology

Best Communication
Hamworthy

Best Use of AIM
Avanti Communications

Best Technology
Advanced Medical Solutions

AIM Transaction of the Year
Petra Diamonds

Achievement in Sustainability
Bglobal

Best Research
David Blackwell

Digital Barriers secures newcomers award

Security *www.digitalbarriers.com*

Digital Barriers, the newly crowned AIM new issue of the year, started out as a cash shell but it did not take long to make four acquisitions, including that of AIM-quoted video surveillance technology company COE Group.

Digital Barriers raised £19m net at 100p a share when it joined AIM on 4 March and on the first day's trading the share price went to a 28% premium. The share price is now more than double the placing price.

The former management team of IT consultancy Detica, headed by Tom Black, set up the company to provide products and services in the homeland security sector. Executive chairman

DIGITAL BARRIERS (DGB)			210.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	52.2

Tom Black led the management buy-out of Detica in 1997 and its flotation in 2002. BAE Systems acquired Detica for £531m in 2008.

Former Detica chief operating officer Colin Evans runs the business as managing director and Zak Doffman, who used to be group strategy director at Detica, is responsible for Digital Barriers' strategy.

Thermal imaging equipment supplier Security Applications was bought for up to £2.5m three weeks after the flotation. That was followed by the £3.2m purchase of security services provider Overtis Solutions and the £3.3m (9p a share) acquisition of COE. Since winning its award, Digital Barriers has announced the purchase of image processing and simulation services provider Waterfall Solutions for up to £5.5m.

The company is well into the first phase of its strategy. The second phase involves international development of the business combined with larger acquisitions and the third phase will concentrate on getting the most of the acquisitions and developing organically.

company news

Walker Greenbank recovery helped by increased manufacturing efficiency

Furnishings supplier *www.walkergreenbank.com*

Walker Greenbank has successfully ridden out the downturn in the furnishings sector and it is taking full advantage of the recovery. Sales have returned to their previous peak level and the business is highly cash generative.

Revenues grew 16% to £33.7m in the six months to July 2010. That is more than the first half of 2008-09, which was the previous first-half peak. Operating profit nearly doubled to £2.06m even before a £500,000 exceptional insurance gain relating to the loss of pattern books in a fire. Stripping out the exceptional, pre-tax profit trebled to £1.81m. The manufacturing businesses were responsible for the majority of the improvement in profit. Higher capacity utilisation enabled these businesses to swing from an operating loss of £84,000 to a profit of £1.13m.

There was a higher profit contribution from the furnishing brands but investment in Sanderson's 150th anniversary held back the profit growth. The upmarket Zoffany brand grew more slowly than the others. Most of the longer-term improvement will come from the brands. Harlequin is increasing its licensing revenues from bedding, rugs and towels.

> The manufacturing businesses were responsible for the majority of the profit improvement

Investment in the manufacturing business and the normal first half working capital outflow meant net debt was £2.82m at the end of July 2010. Further capital investment means that net debt might be slightly higher by the end of January 2011 but it will fall again next year.

WALKER GREENBANK (WGB)			42.75p
12 MONTH CHANGE %	+111.1	MARKET CAP £M	25

Walker Greenbank is paying an interim dividend of 0.15p a share. That is the first interim for 13 years. The total for the year is expected to increase from 0.5p a share to 0.7p a share.

Management is thinking more seriously about potential acquisitions but they are not a priority because the present business is performing strongly.

Underlying profit is expected to jump from £2.4m to more than £4m in the full year. The second half comparatives are much tougher because the business had already started to recover. November is the most important month. The shares are trading on just over eight times prospective 2010-11 earnings.

Teachers TV shock for Ten Alps

Median content and marketing *www.tenalps.com*

Ten Alps will have to think hard about new revenue streams for Teachers TV following the UK government's decision to end its backing of the channel. Ten Alps says that the Department for Education will terminate the Teachers TV deal on 29 April 2011.

At the time of its full-year figures, Ten Alps said the contract lasted until 2013 but it had a six-month notice period. Ten Alps is the majority shareholder of Teachers TV, which has been broadcasting for more than five years. The service has migrated from satellite and cable to online and that is saving money, but it will still require significant revenues to make it commercial.

TEN ALPS (TAL)			9.5p
12 MONTH CHANGE %	- 67.5	MARKET CAP £M	7.01

The latest Ten Alps accounts say that the business contributed £10m-£11m of annual revenues. The loss of this revenue will undoubtedly hurt Ten Alps, whose revenues were £66.1m in the year to March 2010. Teachers TV accounts for around half of the content division's revenues. Last year's group operating profit was £4.45m, although most of that came from the communications division.

Ten Alps is considering its options for Teachers TV. They include sponsorship, advertising or subscription-based revenues. The company is also reducing group overheads.

In the past, Ten Alps chief executive Alex Connock has talked about transferring the Teachers TV concept to other territories. Ten Alps has sold the Teachers TV format to the Canadian market and was negotiating deals in other markets.

Asian Citrus has juicy income prospects

Orange plantations operator *www.asian-citrus.com*

Dividend

Asian Citrus has consistently paid dividends since it joined AIM. The dividend was increased from 0.71p a share to 1p a share in the year to June 2010 and there was also a special dividend of 0.2p a share.
If the special dividend is included then the historical yield is just over 1.6%. Even so, the yield is not particularly high but, as the plantations mature, the operations will generate more and more profit and cash. That provides opportunities to increase the dividend. Net cash was RMB975m (£90.5m) at the end of June 2010, helped by a placing in April that raised RMB328m at 47.8p a share.
The latest dividend is equivalent to 37% of earnings, excluding biological asset gains, compared with 26.9% the year before. Gains on biological assets relate to the increased value of the orange trees as they mature and they are not a cash item.
The dividends are announced in RMB so there is an exchange rate risk. The latest final dividend has benefited from the exchange rate movements – the constant currency increase was 25%.

Business

Asian Citrus has been talking about entering the fast-growing juice market for a number of years and the purchase of Beihai Perfuming Garden Juice Company gives it a strong base. The company is paying HK$2.04bn (£165m) in cash and shares for a 92.9% stake in Guangxi-based Beihai, the largest supplier of fruit juice concentrates in China. The main focus is pineapple, lychee and other tropical fruits and the customers are major beverages manufacturers.

In 2009, Beihai generated a pre-tax profit of RMB173m on revenues of RMB467m. To put this in perspective, Asian Citrus made a pre-biological assets profit of RMB281m on revenues of RMB812m in the year to June 2010. The purchase should be earnings enhancing.

Fruit-juice consumption in China is one-tenth of the average for the world. Demand for juice concentrates in China is expected to grow by around 30% a year. Orange juice demand far outstrips local supply.

Asian Citrus operates two plantations, at Hepu – where Beihai also has a plant - and Xinfeng, and is about to plant the first batch of trees at a third at Hunan. Most of the growth in orange production is coming from the immature Xinfeng plantation.

There is a non-legally binding agreement to buy a state-owned plantation with 1.1m citrus fruit trees in Guangxi. The company has exclusivity until the end of January.

Asian Citrus' revenues are predominantly generated by the sale of oranges, although there is a contribution from the sale of saplings, where it has first refusal on the fruit produced. Supermarkets are increasingly important customers and they accounted for just over two-fifths of sales last year.

ASIAN CITRUS (ACHL)	
Price	73.5p
Market Cap £m	633.1
Historical yield	1.3%
Prospective yield	1.6%

Dividend news

Specialist technical staff provider **Matchtech** maintained its dividend even though its pre-tax profit slumped from £11.3m to £8.58m in the year to July 2010. Trading continued to be tough last year and Matchtech could be hit by government spending cuts. The final dividend was 10.6p a share and the total dividend for 2009-10 was 15.6p a share, which was covered 1.7 times by earnings – down from 2.2 times the previous year. The dividend costs £3.6m a year. Matchtech generated £3.83m from operations in 2009-10 but most of that was paid in tax. At 217.5p a share, the prospective yield is 7.2%.

Bicycles and leisure products supplier **Tandem** is paying its first dividend since it switched from the Main Market to AIM 10 years ago. The 1p a share interim dividend is well covered by interim earnings per share of 10.89p for the six months to July 2010. Revenues were flat at £19.1m but there was a smaller contribution from bicycles and a 19% increase in revenues from the rest of the business. However, most of the profit improvement came from the bicycles division because the sales lost were from a low-margin promotional contract with a national retailer.

Aurum Mining says that the legal wranglings over the ownership of its 10% stake in the Andash gold and copper project in Kyrgyzstan will not adversely affect its proposed capital distribution. It intends to appeal against a court decision that transactions relating to the stake were invalid. Shareholders have passed a resolution agreeing to a 15p a share capital repayment – equivalent to £7.5m. At the end of March 2010, there was $14.6m (£9.2m) in the bank. The expected ex date is 2 December and the cheques should be sent out on 6 December. The shares are trading at 16p.

Expert view: The broker

Gearing up for growth

By DUNCAN HALL

Pawnbroker Albemarle & Bond (A&B) reported results for the year to June 2010 that were comfortably in line with expectations. Last year gold buying accounted for 21% of gross profit and, with the gold price expected to remain high, the sector is becoming more confident that these are sustainable earnings.

Gross profit grew from £42.4m to £53.6m last year. Pawnbroking income grew 9% to £28.2m. The pawn book increased 16% to £29.6m – 13% of the growth came from established outlets and 3% from new.

A&B has 132 stores and plans to open 25 in the year to June 2011. That would amount to a 36% increase in stores over a two-year period. A&B believes that the UK could accommodate double the 1,100 estimated existing sites.

Obviously the group is carrying the new start-up costs of this expansion in operating overheads and, at an estimated £0.1m impact per store, the annual new business drag is around £2m.

Golden opportunity

Gold buying did not make a contribution in 2007-08 but last year it generated gross profit of £11.5m. A gold hedge was put in place as a safety device but has proved a costly restraint as the gold price headed North. Removing it will leave profits exposed to subsequent price movements.

The group ended the year with 15 pop-up gold stores, having undertaken a trial in the early part of the financial year (initially with three stores). The group is currently operating 19 stores, with 10 further possible openings this year.

Gold buying is not reliant on pop-up stores for its success as the existing group outlets offer the service, but pop-up stores do provide a fast response to the market, are low cost to start up, generate a quick return and achieve a high return on capital employed. Based on the experience of EZCorp in the US, A&B believes gold buying is a sustainable market. There is around 60 tonnes of gold scrapped annually in the UK, with a fair proportion coming from retail – as opposed to industrial. The belief is that weaker internet or postal players are the first to shed market share. A&B estimates it has a 6% share.

The £30m increase in group revenue for 2010 relates mainly to the impact of gold buying

The group is becoming more confident that it can manage movements in the gold price. The £30m increase in group revenue for 2010 relates mainly to the impact of gold buying, and its effect will remain pronounced on the top line, especially if the gold price continues to increase. A&B has worked out how to protect margins against sharp adverse movements, so it can manage this earnings stream, even if it is unpredictable. We have assumed a softening impact from gold buying for 2011, despite the continued increase in pop-up stores.

The group derives its jewellery revenue from two sources – ex-pledge stock, effectively bought in from auction, and new stock retailed principally through Herbert Brown outlets. The products appeal to different audiences.

The rising price of gold and recessionary caution has taken the edge off consumers' appetite for gold-based jewellery, with a propensity to scrap, rather than acquire, gold items. The market has therefore moved in favour of lower-ticket, lower-margin silver and bead items. That means return on capital employed will remain low for the division and profit growth beyond incremental store expansion will be unlikely. The relationship of jewellery sales to the pawnbroking business and its importance to the Herbert Brown proposition means, however, that jewellery remains a core group earnings line.

Cheque challenge

The financial services operation (13% of gross profit) faces challenges. Pay Day Advances contribute 60% of gross profit, Third Party Cheque Clearing 20% and Speedloans 16%. Of the three, unsecured lending offers the most natural route for growth. The banking industry is winding down the use of cheques on cost grounds so this area is confronted by structural change.

Flat profits of £20m are forecast for the year to June 2011 and then a rise to £24m in 2011-12. The removal of the profit drag resulting from the gold hedge in 2012 combined with the effect of new stores developing their business provides strong momentum for profit growth for that year and beyond.

DUNCAN HALL is a research director at FinnCap.

feature

Independent focus of non-executives

Non-executive directors are an important component of an AIM company's board, providing both corporate governance and invaluable experience.

Non-executive directors are a key part of a company's board and they can be particularly important for small companies.

They do not run the company but they have an important role in corporate governance and helping the company to grow. The non-executives should have a good relationship with the executives but that does not mean that cronies of management should be appointed to the role. If it is too cosy a relationship then the operations of the business will not be scrutinised with the appropriate rigour. While non-independent non-executive directors may have a role to play there needs to be a level of independence for at least some of the non-executives. They need to be able to challenge and debate the ideas and strategy of the executives.

Corporate governance

According to the Financial Reporting Council's UK Corporate Governance Code: "Non-executive directors should scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They should satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning".

It is recommended that at least half the board is made up of independent non-executives, who have not been executives in the previous five years or have connections with the board or significant shareholders.

The code also says that the chairman should hold meetings without the executives being present and non-executives should meet annually to appraise the chairman's performance.

The UK Corporate Governance Code is designed for larger companies more than for the majority of companies quoted on AIM but it does give some guidance on what to expect from a small company non-executive director.

> Individual non-executive directors bring their own skills to the board

Experience

One man who has firm views on the role of a non-executive is Frank Lewis. He built up a number of businesses in South Africa, including computer retailer Computer Warehouse. Computer Warehouse eventually floated on the Johannesburg Stock Exchange, giving Lewis his first experience of being a director of a quoted company. He eventually left the company and moved to London at the end of the 1980s.

During the 1990s Lewis made the switch from entrepreneur to non-executive roles. He has a varied CV of non-executive directorships, including the technology, consumer products and industrial services sectors. He also has experience of Chinese companies.

Lewis was a member of the AIM Advisory Group, the committee set up by the London Stock Exchange to provide advice on regulatory and operational factors relating to AIM, but he has left. The AIM Advisory Group has always been short on representatives from the customers – the companies and their directors. It appears that AIM has decided that the AIM Advisory Group should consist purely of 'professionals' - brokers, lawyers, accountants and institutional investors. This means that it loses out on other perspectives.

Skill set

Lewis has a list of qualities that he believes are essential to be a successful non-executive. They include good interpersonal skills, ability to manage conflict, clear communication, integrity, commercial awareness and sound judgement. It is important to be able to say what needs saying and, if it is needed as a last resort, be willing to resign - although Lewis rarely walks away from a challenge.

Lewis is a stickler for proper controls and monthly management accounts. He thinks the non-executives should "take a helicopter view". His definition of a good non-executive is someone who "ensures that the business is well run but does not run the business".

Lewis says that chemistry is important. "People make the business", he says. A sound relationship is required for a board to function properly. "You have to challenge in the right manner," he argues.

Lewis believes that the specific job of the non-executive chairman of an AIM company is to talk to the institutions feature

and keep them informed of what is going on at the company. The chairman needs to make sure that investors have as few nasty surprises as possible and, if they do happen, they are informed promptly.

Lewis has been on the boards of companies that are already quoted as well as those going through the flotation process.

Non-executives have a pivotal role in guiding a company when it intends to gain a quotation and they should be appointed as soon as possible in the process. Generally, the time taken up by going through the flotation process comes as a shock to the company's management. A non-executive needs to make sure that the management understands the process they are going through and do not spend too much of their time away from the business. If they don't, then companies can end up disappointing in their early months on the market because the business has not been properly managed throughout the flotation process.

Non-executives have a pivotal role in guiding a company when it intends to gain a quotation

Lewis believes that non-executives effectively sit on the same side of the fence as the nominated adviser. He would like to see the nominated adviser and non-executives of a company talking every quarter without the executives being present. That is an extension of the Corporate Governance Code's view that non-executives should meet regularly without the executives being present.

Problems

Lewis has not had a smooth ride at all of his companies. One of his early roles was as non-executive chairman of e-District, the family-focused internet and interactive television services provider, which floated on the back of impressive usage figures that proved to have been massively inflated.

As soon as he discovered the fraud Lewis had to inform the shareholders and try to salvage what he could of the business. He took over as chief executive and refocused the company on interactive TV content. Many others might have walked away or let the business go under but Lewis, who was also a substantial shareholder, was determined to keep the business going.

More recently, another of Lewis's companies, mobile phone maker ZTC Communications, was hit by the disappearance of its chief executive. The business was profitable but it ended up being closed down. The company itself was preserved and became a shell called China Evoline. Lewis was unable to find a suitable acquisition in the required time and the company's quotation was cancelled in October.

While these experiences are unfortunate they do provide Lewis with a vast amount of experience that few non-executives can rival.

It is not all about making sure that the company is run properly, it is also about assisting the management team with making the most of their business opportunities. Individual non-executives bring their own skills to the board and it is important to have a good mix of experience. Lewis believes that it is important that there is a balance between being a policeman and adding commercial value.

Animalcare

Sometimes the requirements of a business might change. An example of this is veterinary treatments and products supplier Animalcare. It has gone through a number of changes in recent years.

Animalcare was formed through the reverse takeover of the Animalcare vet products business from cattle breeding technology company Genus by livestock tags and products supplier Ritchey in 2008. The businesses that made up the original Ritchey business were sold in September for £3.25m or are, in the case of Travik Chemicals, being closed.

"The non-executives need to be changed", says Animalcare chief executive Stephen Wildridge, who only took up this post earlier this year. He joined the company when the Animalcare business was acquired and has been behind the strategy to focus on this business. "Geoff (Rhodes) and Nick (Wills, the Marquess of Downshire) relate to the old business". Both have farming backgrounds whereas the future focus is on companion animals. Rhodes was managing director of Ritchey between 1972 and 2005, while the Marquess of Downshire has been a non-executive director since 1998.

Just because a director pre-dates the 2008 acquisition it does not mean that he is not useful to the business. Wildridge is happy with non-executive chairman James Lambert, who has been on the board since 2003 and chairman since 2005, because he provides City expertise and he is known throughout the City. He built up fully listed Richmond Foods into the largest volume ice cream maker in the UK through a series of acquisitions before it was taken private by Oaktree Capital for £176m. He still runs the business, which was merged with another company.

What Wildridge needs most is someone who knows the veterinary treatments business and has years of experience of regulation in the life sciences sector. Gaining regulatory approvals for new treatments and drugs is an important part of the business, which expects to launch at least four products in the current financial year. Anyone who can help to make that process as efficient and smooth as possible will be a great benefit to the company.

Wildridge says that there are a number of candidates but he does not expect to make an appointment before Christmas.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Financials	21.8	23.8
Oil & gas	22.1	9.4
Basic materials	19.1	13.1
Industrials	10.6	18.9
Technology	8	10
Consumer services	7.3	12.1
Health care	4.9	5.3
Consumer goods	3.6	5.1
Telecoms	1.7	1.2
Utilities	1	1.1

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	814.39	+25.8
FTSE AIM 50	3180.65	+19.5
FTSE AIM 100	3716.95	+28.4
FTSE Fledgling	4375.87	+9.1
FTSE Small Cap	3076.95	+10.4
FTSE All-Share	2936.15	+11.7
FTSE 100	5675.16	+10.5

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	289
£5m-£10m	181
£10m-£25m	261
£25m-£50m	194
£50m-£100m	122
£100m-£250m	99
£250m+	58

KEY AIM STATISTICS

Total number of AIM	1,204
Number of nominated advisers	62
Number of market makers	50
Total market cap for all AIM	£65.62bn
Total of new money raised	£69.28bn
Total raised by new issues	£33.75bn
Total raised by secondary issues	£35.53bn
Share turnover value (2010)	£21.68bn
Number of bargains (2010)	2.6bn
Shares traded (2010)	99.59bn
Transfers to the official list	151

TOP 5 RISERS OVER 30 DAYS

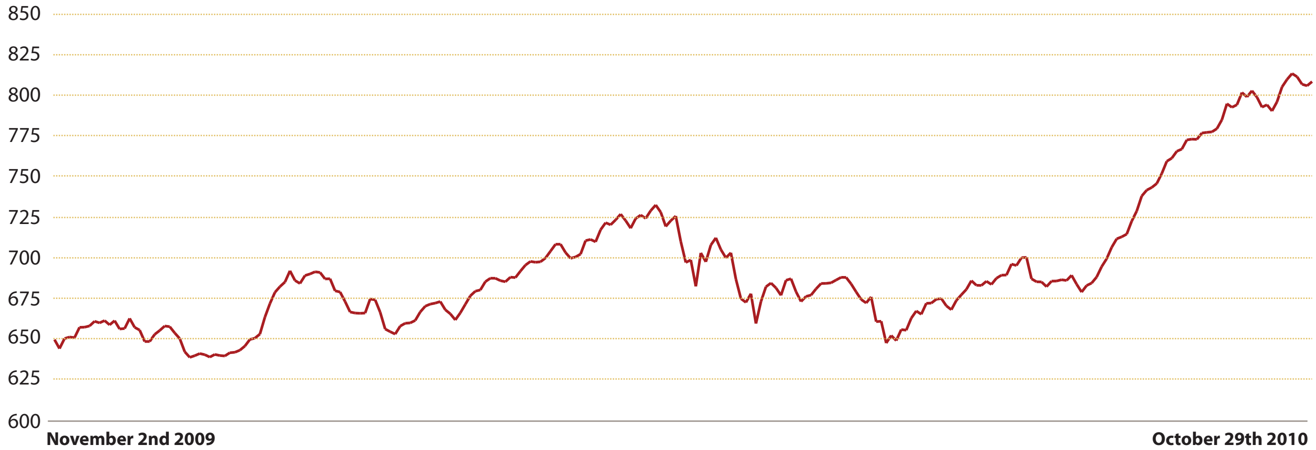
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Premier Management	Leisure	3.125	+794.3
AFC Energy	Cleantech	72.25	+280.3
Parkmead Group	Oil and gas	6.5	+271.4
Indian Film Company	Media	107.5	+186.7
Beowulf Mining	Mining	15	+130.8

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Gas Turbine Efficiency	Cleantech	3.125	-64.3
Deo Petroleum	Oil and gas	47.5	-56.8
Viridas	Cleantech	3.625	-56.1
Millwall	Leisure	875	-54
Hawtin	Property	1.625	-50

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 29th October 2010, and we cannot accept responsibility for their accuracy.

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finnCap is already ranked as a top-ten AIM adviser and broker and occupies leading positions in several sectors. In technology it is No. 1 ranked by number of AIM clients, and no 2 in life sciences. finnCap's 45-strong team has established leading positions in the small cap consumer, industrials, insurance, support services, financials and mining sectors. The finnCap research team was shortlisted at the 2009 AIM awards.

finnCap works with over 65 corporate clients and raised just over £90m for clients in 2009. It is a Nominated Adviser (NOMAD) for AIM companies and a Corporate Adviser for Plus Markets.

In 2007, private client stockbroker 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 took a significant equity stake in the business.

In 2010, finnCap employees and non-executive chairman Jon Moulton acquired the outstanding 50% of the company that was previously owned by JM Finn. The company name has changed to finnCap Ltd, in line with the trading name.

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