



JSE Junior Market Workshop

Dylan Coke

Attorney-at-Law
Asst. Vice President
Business Development
NCB Capital Markets Limited

Andrea Kinach

Attorney-at-Law
Patterson Mair Hamilton

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What is a Junior Market?

- Junior market is a stock market established/attached to an existing exchange
- Usually targeted at SMEs
- Usually has easier listing requirements
- Intended to develop SMEs & drive economic growth

Advantages of Being a Publicly-Listed Company

- Raise company and business profile
- Basis for valuation
- Ability to raise capital from the public
- Attractive alternative to debt financing which requires collateral, and can be expensive:
 - Base interest rates for local currency loans are in the range of 19.125% to 22.50%
- Allows public to participate in success of the company
- Good corporate discipline and transparency

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Global Junior Markets

London Stock Exchange – Alternative Investment Market (“AIM”)

Toronto Stock Exchange – Venture Market (“TSX-V”)

- Allow investors to put capital into legitimate small and medium sized enterprises (“SME’s”) that are listed
- Represents an exciting new opportunity for SMEs to raise capital, investors to participate in growth of Jamaican equities market.
- JSE aims to establish the Junior Market by the end of the 1st quarter of 2009

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London Stock Exchange Alternative Investment Market ("AIM")

- Quick Facts:
 - Launched 1995
 - Over 1550 companies listed from over 30 countries
 - Total Market Cap £50,208M
 - Over 138,000 trades with a value of £327M during Nov. 2008
- Reasons for establishment:
 - Allows smaller growing companies access to capital with less regulation.
- Very flexible listing requirements:
 - No track record, restriction on share transferability, minimum size or shareholding requirements.
 - Main requirement: prospective companies must enlist AIM-approved Nominated Advisor "NOMAD" to determine suitability for admission, and to act as a periodic adviser.

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Toronto Stock Exchange Venture Market ("TSX-V")

- Quick Facts:
 - Acquired in 2001
 - Over 2100 companies listed (Dec. 31 2007)
 - Total Market Cap CDN \$58B (Dec. 31 2007)
- Reasons for establishment:
 - Allow smaller growing companies access to capital
 - Listing requirements are not as flexible as AIM and vary by sector and Tier: They include:
 - Minimum value of tangible assets, property, capital distribution etc.

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TSX-V Success Stories

- Artis REIT (Calgary, Manitoba)
 - Went public in 2004
 - Raised CDN \$147M
 - Graduated to TSX 2006
 - Market Cap (June 30, 2007) of CDN\$445M

- Kangaroo Media Inc. (Canada)
 - Went public in 2004
 - Raised CDN \$33M
 - Graduated to TSX 2006
 - Market Cap (June 30 2007) of CDN\$85M

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JSE Junior Market: A Place for SMEs

- A market designed for SMEs to grow in a supportive environment
- Designed for ease of use by SMEs
- Suitable for SMEs with subscribed equity capital of J\$50m - J\$500m
- Supported by tax concessions granted by GoJ, for a maximum period of 10 years
- Concessions are dependent on the SME remaining for a total of 15 years on both JSE platforms or the concessions lapse and must be repaid
- Reduced JSE fees: 50% less than on Main Board

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General Guidelines for Admission to the Junior Market (1)

- Admission of eligible companies to the Junior Market is at the absolute discretion of the JSE Board
- An eligible company:
 - is incorporated or registered and operating as a business in Jamaica, or a CARICOM country
 - can't be 'associated' with a JSE listed or other listed company
 - has subscribed equity share capital of J\$50m - \$500m
 - has a certain number of shareholders holding at least 20% of the equity share capital (25+ after IPO and in Tier 1, 50+ in Tier 2)
 - has appointed a mentor to act as a compliance adviser to the Board
 - has to meet criteria for GoJ tax concessions

General Guidelines for Admission to the Junior Market (2)

Initial Admission to Junior Market requires:

- initial public offering of equity shares
- prospectus (under Companies Act, Securities Act)
- other standard form documents, such as the Admission Agreement, Declaration, Mentor Agreement
- documents including prospectus and eligible company approval minutes will be provided in 'shelf' form, for ease of use (but still require professional advice)
- payment of admission fees (JSE Board to provide concessionary rates)

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General Guidelines for Admission to the Junior Market (3)

Continuing compliance:

- Admission conditions (including but not limited to maintaining tax concession eligibility and appointment of mentor)
- financial reporting quarterly and annually in IFRS
- timely disclosure of price sensitive information in the form of public announcements
- takeovers, mergers, amalgamations are regulated

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Specific Admission Requirements: Method of Issue

- Public offer of equity share capital at a fixed price (offer for sale or subscription)
- Prospectus forwarded to JSE (and FSC) in draft form for review, at least 21 days before date of publication
- Publication of approved prospectus at least 14 days before offer opens for sale or subscription - newspaper not necessary, can be on JSE website
- Prospectus will also be disseminated through lead brokers and selling agents
- Requirements for details of allotment in accordance with Companies Act and rules of the Main Board

Specific Admission Requirements: Shelf Documents

Within fifteen (15) days after allotment of the equity share capital in the IPO:

- Prospectus
- Admission Application
- Admission Agreement
- Declaration for Admission
- Mentor Agreement
- Approval Minutes - Board of Directors and EGM of original equity shareholders

All provided by JSE in shelf document form and are easy to use but not a substitute for proper legal advice !

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Specific Admission Requirements: Mentor to the Board

- Experienced in compliance
- Advisor to the Board, but not a Director
- Not a business advisor
- Approved by JSE Board
- Duties to share - and security - holders of the Junior Market Company as a whole
- Duties to JSE Board (including notification of rule breaches by Junior Market Company)

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Mentor Duties

- Sign up to Mentor Agreement
- Providing compliance, not business, advice to Board of Junior Market Company
- Key duty is to advise on establishment of adequate procedures, systems and controls for:
 - good corporate governance, including:
 - the holding of regular Board meetings
 - the establishment of appropriate Board committees, such as an audit and remuneration committee
 - carrying out of appropriate due diligence enquiries by Company, prior to and following Admission to the Junior Market, and at material stages
 - good fiscal discipline and financial reporting
 - timely disclosure of price sensitive information

Movement between Junior Market and Main Board of the JSE

- Junior Market Company to remain on Junior Market for up to 10 years
- The 10 year period will consist of 2 Tiers of 5 years each
- After 10 years the Junior Market Company is expected to graduate to the Main Board and to remain on it for another 5 years
- However if Junior Market Company is more sophisticated/suitable to the Main Board, or if its subscribed equity capital grows above J\$500m it must graduate at that stage

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Benefits and Taxation

JSE is proposing a tax incentive for an **Allowable Period** not exceeding 10 years from the date of listing on JSE Junior Market.

- Full income tax holiday for half of Allowed Incentive Period after listing
- Half income tax holiday for 2nd half of Allowed Incentive Period
- Exemption from transfer tax and stamp duty on transfers of shares in JSE Junior Market companies
- If company de-lists within 15 yrs of being listed on combined exchanges it will be required to repay to Government tax benefits enjoyed during this period.

Benefits and Taxation

- An exemption from tax on dividends or other distributions as outlined below:

Private Companies	Junior Market 1 st Five Year Period (Tier 1)	Junior Market 2 nd Five Year Period (Tier 2)	JSE Main Market
• Corporate Tax rate of 33 1/3%	• Corporate Tax rate of Nil	• Corporate Tax rate of 50% of the full prevailing rate	• Corporate Tax rate of 33 1/3%
• Taxes due on dividends	• Tax free issuance of all dividends	• Tax free issuance of all dividends	• Tax free issuance of all dividends
• Taxes due on capital gains	• Capital gains taxed at nil rate	• Capital gains taxed at nil rate	• Capital gains taxed at nil rate

Timeline to Admission

- Company incorporates as a public company in Jamaica or elsewhere in CARICOM region
- Company confirms eligibility for tax concessions
- Company appoints its mentor and signs up to Mentor Agreement
- JSE Board approves Mentor Agreement conditional on successful IPO and Admission.
- Junior Market Company drafts prospectus with mentor and other advisors
- JSE and FSC review, comment on, and confirm prospectus
- Prospectus registered with Companies Office of Jamaica
- Prospectus published for 14+ days before launch of IPO
- Junior Market Company launches IPO of equity shares
- IPO successful in attracting subscription of J\$50m - \$500m
- Company applies to JSE Board for admission to Junior Market providing remaining shelf documents

Life on the Junior Market

- Further issues need not be equity shares, can be preference type shares or debt securities
- Methods of further issue - not just IPO - can have placings, etc.
- Periodic reporting: quarterly and audited annual financial statements
- Timely disclosure of price sensitive information by public announcement
- JSE Fees: initial fee, annual fee & supplementary fees 50% lower

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Leaving the Junior Market

- By application of the Junior Market Company (but tax concessions may be lost)
- In the event of certain takeovers, mergers or amalgamations: if surviving entity is no longer eligible to be a Junior Market Company
- If Junior Market Company mentor resigns and no replacement is found within 30 days
- If company is no longer eligible for the Junior Market, e.g. if subscribed equity increases above J\$500M
- By disciplinary action of the JSE Board for misconduct

Acknowledgements

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