

The principles and experience which are needed to be a Non Executive Director of international companies when considering an IPO.

1. I will be talking on the duties and experience that relates to NEDs for international companies and why they are important for the success of the IPO.
2. My contribution has been based on my practical experience acting as a Chairman and NED of several international companies in China, Australia, Europe and the Middle East.
3. I would like to start by giving you my definition of a good NED, and also some of the qualities needed to be an effective NED of an international company
4. A good NED in my opinion is one that ensures the business is well run but does not run the business.

4.1 The qualities that I believe are needed are:

- a) Good interpersonal skills and the ability to manage conflict
- b) Sound judgement
- c) The ability to influence through clear communication – especially where there are language barriers.
- d) Financial and commercial skills sufficient to ensure understanding of the organisations progress against pre-determined goals.
- e) Integrity and higher ethical standards.
- f) Do not be afraid to say things that need saying and as a last resort vote with your feet.

5. Investors will expect a company wishing to IPO to have a board comprising of executive directors that will bring effective committed and experienced managers to the business.

This will be supported by NEDs who have the experience of acting in such capacity for other companies publicly traded in the UK.

Without an effective board, the best business will remain unfunded by sophisticated investors.

6. A guide as to board structure is as follows

6.1 The board of the company must as a minimum comprise a full time CEO, and suitably qualified CFO plus at least two suitably qualified NEDs.

6.2 The provisions of the Combined Code/The QCA Corporate Governance Guidelines for AIM companies (as applicable) relating to NEDs should be regarded as a benchmark for standards required for smaller international companies in relation to board composition and the role of NEDs .

6.3 All smaller international companies should appoint two UK based NEDs with requisite experience as early as possible in the IPO process, ideally prior to circulation of the first substantial draft of the due diligence reports. Companies should appoint their advisors to assist in selecting appropriate candidates.

The most suitable candidates in my experience are those with substantial business experience and those who have listed companies themselves.

6.4 The advisors will make recommendations as to acceptable market terms, notice periods etc. This should be addressed early in the IPO process.

7. UK investors may wrongly assume that corporate governance is not practiced for smaller international companies up to UK standards. Every effort must be made to disabuse potential investors from making this assumption, by implementing good corporate governance practices.

7.1 Appointing independent NEDs with successful UK public company experience will go a long way to promote a favourable response from UK investors.

7.2 A Remuneration Committee, Audit Committee also need to be set up and possibly a nomination committee of which NEDs will be members will also be formed.

7.3 In all cases the reference point must be the combined code issued by the financial reporting council. The QCA has published the Corporate Governance Guidelines for AIM companies – reference should also be made to the QCA publication, Guidelines for smaller companies – the Combined code on Corporate Governance.

7.4 A commitment to implementing a corporate governance policy on terms acceptable to the market may be a critical component in achieving a successful IPO. Some international companies consider such implementation to be a ‘box-ticking’ exercise and regard it as a low on the list of ongoing priorities post flotation. They sometimes suffer from what I call ‘post flotation amnesia’. The market will be alert to a failure to match the corporate governance intentions at the time of IPO with continued implementation post IPO

7.5 Corporate governance should be understood as extending beyond the provisions of the combined code – to encapsulate the overall responsibilities and duties of directors of publicly traded companies. These should be explained to directors of international companies prior to the IPO by the company’s advisors. Because of language difficulties and cultural issues this should perhaps be explained in the form of case studies and other memoranda prepared for this purpose. The NEDs can play an invaluable role in this regard.

7.6 The guiding principles in regard to corporate governance and the role of the NED is therefore:

- a) To ensure the ongoing implementation of corporate governance policies which have been put in place at the IPO
- b) NEDs should not be removed or replaced other than in exceptional circumstances within 12 months of an IPO
- c) Any changes at any time to the NEDs should be approved by the NOMAD

8. The concept of the role and the relationship between the NED and company is one which is of great importance to me, the objective being to build and open and transparent relationship with the executive directors.

8.1 Communications, therefore, plays a major role in attempting to achieve this objective, which is made more difficult due to cultural and language differences.

8.2 It is part of the learning process for executive directors of overseas companies to understand their obligations and to build a sound relationship with their NEDs. NEDs can also be of help with general business advice, mentoring and representing the company in the City. What I find works for me, for example, is that I speak with my companies at least weekly, get copied in all relevant email correspondence, receive monthly management accounts, have monthly board meetings and ensure that accurate board minutes are produced when appropriate.

It is not enough to get overseas company's directors to sign that they understand their ongoing obligations.

8.3 I believe the more one communicates the better the chance one has to build a relationship of trust and transparency with the directors of overseas companies.

8.4 The Nomad should also play a major part in the education of the companies they are advising and bringing to the market.

9. I believe the guiding principles, therefore, regarding the relationship of the company with their NEDs is as follows:

- a) NEDs must be invited to attend all Board meetings well in advance of the meeting and be provided with Board papers.
- b) The executive directors of the company must be willing to engage in full dialogue with the NEDs and respond to their requests for information fully.
- c) Prior to an IPO the entire Board should attend a meeting with the company's Nomad and legal advisor to review the Board's overall responsibilities and duties including corporate governance.
- d) All directors should attend a refresh session with their Nomad on an annual basis to review compliance with their ongoing obligations. Also in my opinion the finance director should be given case studies on how interim and final accounts are to be presented for announcement and when announcements need to be made with regard to material contracts and trading updates and other price sensitive pieces of information etc.

10. And finally the best advice I can give from my experience to overseas and local companies seeking an IPO is:

- a) Ensure that your company is continued to be well managed during the admission process as it will take up significant management resource.
- b) Meet your first year forecast - do not over promise and under deliver— failure to do so is likely to lead to a rapid deterioration in the company's share price and inability to raise further equity in the markets, as well as impacting on the credibility of the company's management with investors.

- c) Appoint your NEDs as soon as possible in the IPO process in order for them to begin to build a trusting relationship with the executive directors, and please use their experience and expertise for the benefit of the company.

Thank you