



Merchant John East *Securities*

CONFLICTS OF INTEREST POLICY (OCTOBER 2009)

Under the Financial Services Authority (FSA) Principles for Business, Principle 8 states “A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client”.

Merchant Securities Plc is the parent company of Merchant John East Securities Limited (“MJES”). Merchant Securities Plc, its subsidiaries and associates are referred to hereafter collectively as “the Merchant Securities group”. MJES provides investment management and advisory and dealing services for Retail and Professional clients, Institutional dealing services, Private equity fund-raising, investment research services and the provides corporate finance advisory and broking services to small and medium-sized companies. As a result, a variety of conflicts may arise and MJES has obligations to:

- (a) take all reasonable steps to identify conflicts of interest between:
 - (i) MJES and its clients and
 - (ii) one client and another;
- (b) maintain and operate effective organisational and administrative arrangements designed to prevent and manage conflicts of interest that pose a material risk of damage to clients’ interests;
- (c) disclose any conflicts that cannot be managed effectively by our organisational and administrative arrangements to ensure that clients’ interests will not be damaged; and
- (d) maintain records of MJES’s services and activities in which conflicts have arisen, or may arise.

Identification of Conflicts

To identify the types of conflicts of interest which may arise, we take into account whether or not MJES or an employee:

- (a) is likely to make a profit or avoid a loss at the expense of the client;
- (b) has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of a client, which is distinct from the client’s own interest in that outcome;
- (c) has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client;
- (d) carries on the same business as the client;
- (e) receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services; or
- (f) could be in a position where its ability to act in a client’s best interests is potentially affected by any other matter.

We also seek to identify any situation where the interests of one client may conflict with those of another, in order to ensure fair treatment for each client.

Examples (not exhaustive) of situations where conflicts may arise are where MJES:

- (a) provides investment research to clients in relation to a company where it also provides corporate finance advisory or broking services to the company;
- (b) provides investment advice or recommends a transaction to clients when it may have an interest, relationship or arrangement that is material in relation to the service concerned;
- (c) is the financial adviser or broker to the company whose securities clients are buying and selling, or acting for that company in any takeover bid for the company;
- (d) is engaging in business and trading activities with or for two or more clients who are active in the relevant markets or otherwise interested at the same time;
- (e) receives payments or other benefits for giving business to another firm with which a client's order is placed;
- (f) acts as the manager or investment adviser to a collective investment scheme in whose units clients are dealing;
- (g) provides investment advice, or discretionary portfolio management services to clients and recommends products issued by or services provided by the firm or its associates;
- (h) matches one client's transaction with that of another client by acting on behalf of both clients;
- (i) where MJES is a discretionary portfolio manager for more than one client – with particular emphasis on issues relating to allocation of securities.

MJES or another company in the Merchant Securities group may make a profit or a loss whilst undertaking these roles. We may also enter into transactions for clients under which clients sell an investment in which we, or an associate, may have had an interest in the previous 12 months.

Separate rules and regulations apply to firms that issue investment research and the way we manage research conflicts is described in our Research and Conflicts Management Policy, available on our website.

Relationship between Corporate Finance Department and other MJES departments

The activities of Corporate Finance include the provision of corporate finance advice, corporate broking and related services to small and medium-sized companies, including raising funds for these companies by assisting them to issue securities and/or to make a public listing. MJES acts as a nominated adviser and broker to AIM listed companies. Whilst other departments may introduce companies to Corporate Finance, there is no obligation as to whether or not Corporate Finance proceeds with such introductions.

Managing Conflicts of Interests

We have taken reasonable steps to identify, prevent, disclose or otherwise manage conflicts of interest and our principal policies and procedures in this regard are summarised below. We may need to take additional steps in particular cases and these will be determined by the firm's management and our Compliance Department on a case-by-case basis. We aim to inform clients of our interest before we carry out client instructions, but we have no obligation to obtain client consent to our interest and our interest shall not necessarily preclude us from buying, selling or arranging the purchase or sale of any Permitted Investments (as defined in our client Terms of Business, available on our website).

Independence Policy

We operate a formal independence policy for the business which stipulates that whenever one of our investment advisers gives advice or recommends a transaction to a client, that individual should disregard any relationship, arrangement or interest of his own, or of the firm, which might influence the advice or recommendation.

Best Execution Policy

Our policies for acting in clients' best interests when executing orders and passing orders to third parties for execution are designed to ensure that we meet our best execution obligations regardless of any other interests. A copy of our Best Execution Policy is available on our website.

Chinese Walls

Chinese Walls are formal arrangements that require information held by a person in one part of the business to be withheld from, or not to be used for, people in another part of the business. Corporate Finance operates from behind a Chinese Wall and will continue to maintain a separate office which helps to protect sensitive information. Employees who work in Corporate Finance are strictly prohibited from disclosing any non-public information about corporate clients or potential corporate clients, to any other member of staff or any third party, except under controls which require that, if non-public information is to be passed to an employee on the other side of the Chinese Wall, it must be authorised and recorded by the Compliance Officer.

Allocation Policy

Before allocating investments to clients, we comply with our regulatory obligations to assess suitability or appropriateness. It is our policy to offer allocations to clients for whom the investment is suitable, or appropriate, who have sufficient funds in their account on the commitment date and who understand the investment's terms and conditions and are willing to be bound by them (including any special considerations attached to Placings, such as selling restrictions, which are generally for a limited period of time). Our policy is to allocate investments on a pro rata basis wherever practicable.

Personal Account Dealing Policy

MJES has detailed policies and procedures to monitor employees' personal account dealing and in certain circumstances, to restrict dealing as employees' interests in holding or dealing in securities may conflict with obligations owed to clients.

Inducements/Gifts/Hospitality

Employees must neither solicit nor accept any inducements which may conflict with MJES's obligations to clients, nor offer inducements which could conflict with the recipient's obligations to its own clients. We have procedures in place on the giving or receiving gifts or hospitality and procedures to comply with FSA rules on inducements.

Remuneration Policy

MJES will take care to ensure that it does not give incentives to activities that may lead to conflicts. We will not offer remuneration packages that reward behaviour that disadvantages the interests of clients in favour of MJES or other clients. Employees are rewarded on the basis of merit.