



Merchant Securities

RESEARCH AND CONFLICTS MANAGEMENT POLICY (JULY 2010)

Introduction

Merchant Securities Limited (“MSL”) provides investment management, institutional trading, private equity and investment research services to its Retail and Institutional clients and specialist corporate finance and corporate broking services to small and medium-sized companies. Due to the range of services we offer, customers and investors should be aware that the MSL may have actual or potential conflicts of interest that could affect the objectivity, independence and impartiality of its investment research.

Although potential conflicts exist, we will at all times endeavour to ensure that our research is of a high standard, discloses conflicts as appropriate and is clear, fair and not misleading. We are also bound by the provisions of the FSA Rules and Principles for Business, including Principle 8 which states: “A firm must manage conflicts of interests fairly, both between itself and its customers and between a customer and another client.”

Our investment research is produced by investment analysts in our research department and the particular analyst or analysts responsible for each research recommendation are clearly identified on it. Our analysts could be subject to pressures that could compromise either their ability to offer unbiased opinions on investments, or the timing of publication of research. To minimise the potential that our analysts might be pressurised or compromised, we rely on the integrity of our analysts and we have internal systems and controls. Such systems and controls take the form of internal policies, procedures and other controls such as monitoring and the establishment of Chinese Walls, so that we can reasonably prevent investment research conflicts of interest from constituting or giving rise to a material risk of damage to the interests of our clients and other recipients of our research. However, as it is not possible to guarantee that a risk of damage to a client’s interest can always be prevented, we have set out below the general nature and sources of investment research conflicts and how we manage such conflicts.

Conflicts arising from corporate finance business

MSL may act as nominated adviser and/or broker to certain companies which are covered by the Research Department. Accordingly, MSL may receive ongoing retainer or corporate finance fees and/or broking commissions from companies covered in research material produced by the Merchant Securities group.

MSL corporate finance department provides corporate finance advice and related services to small and medium-sized companies, including raising funds for these companies by assisting them to issue securities and/or to achieve a public listing. If advice provided by MSL is on a confidential matter it will not be possible to disclose the relationship publicly. Moreover, confidential information of this nature will be segregated behind a Chinese Wall that separates our corporate finance department from other departments in MSL and the rest of the Merchant Securities group. Otherwise, the fact that a company (subject of the research) is a corporate client of MSL is prominently disclosed in our

research material. If we have raised funds for a corporate client in either a primary or secondary issue of securities within the past 12 months this will be explicitly disclosed on the research recommendation.

MSL, the Merchant Securities group, its directors, associates or employees, may have a position or may have undertaken or may undertake a transaction on their own account in a security referred to in a research recommendation. Such positions or transactions may also arise from the firm's corporate finance activity. All shareholdings which amount to 5 per cent or more of the relevant class of securities will be disclosed on our website at: www.merchantsecurities.co.uk

Supervision and remuneration of investment analysts

Due to the size and structure of the Merchant Securities group, it is not always possible to completely segregate departments and reporting lines, although our controls are such that there is no overlap across critical control functions, such as our back office and finance department and our client facing activities.

Analysts' remuneration is determined by the remuneration committee of the Merchant Securities group. Our investment analysts are remunerated by a combination of salaries and discretionary bonuses. The level of any analyst's bonus for any given period is based on the general profitability of the firm and on management perception of his or her individual performance. Analysts do not receive, directly or indirectly, remuneration in exchange for expressing any opinions or recommendations in their reports. However, it must be recognised that the overall profitability of the firm, on which analysts' remuneration depends, applies in the same way as for all other employees, is in part dependent on the revenue generated by corporate finance activities and "commission rebate" from broking activities generated by the provision of research.

Analysts' involvement in other activities

As well as preparing and distributing research recommendations, our investment analysts may be involved in other activities on behalf of the firm, including promoting the firm's services to potential corporate clients and advising the corporate finance department on the viability of proposed transactions. Analysts, when preparing research and giving their opinions, will always use their professional judgment to state their unbiased opinions of a company and its prospects. The firm operates a policy of independence and under this analysts giving advice on or making a recommendation about a security are formally required to disregard any relationship, arrangement or interest of their own, or of the firm or its affiliates, which might influence the advice or recommendation. This is reinforced by our Chinese Wall policy which imposes total physical separation between the research analysts and our corporate finance department and by a structure of controls which governs how the research analysts relate to other departments.

From time to time an analyst may be taken over the Chinese Wall to assist a particular corporate client with a transaction. This process is governed by our Chinese Wall crossing procedures and monitored by the Compliance Department. In such circumstances the analyst has become a temporary insider and is not permitted to comment on the relevant company while he is an insider. He must not make a research recommendation until the information he had as an insider has become public, or has expired.

Inducements

MSL does not offer or agree to provide favourable investment research on any company or security, nor to make or change any particular recommendation, in order to obtain corporate finance business. Our analysts are prohibited from soliciting or accepting any inducement to publish or change any opinion or recommendation. They are permitted to accept nominal gifts and ordinary business entertainment in accordance with the firm's formal policies on the receipt of gifts and entertainment. A company covered by an analyst may offer to pay reasonable expenses for a visit to its business

premises and offer reasonable hospitality during such a visit; this will not be regarded as an inducement.

Editorial control

Responsibility for the content of research recommendations rests primarily with the investment analysts' named as having produced them. We do not cede effective editorial control to anyone whose role or interests might reasonably be considered to conflict with the interests of the clients to whom the research is to be published or distributed and our research remains at all times the property and views of MSL alone.

All research material is reviewed by our Compliance Department before being published. From time to time the company which is the subject of research may be given sight of draft research before publication to check the material facts within it. No forecasts or recommendations may be included in draft research shown to a company in this way. If comments on draft research are received from the company they are reviewed by the Compliance Department, which decides whether or not to make the suggested amendments. Above all, no employee from the corporate finance department, any other MSL department, or a corporate client, that is the subject of a research recommendation, can influence the content of any investment research other than checking the factual accuracy of the material.

Timing and manner of distribution

The timing of the publication of research is controlled by the Research Department. We do not invariably impose a ban on issuing research on corporate clients involved in corporate transactions, but may do so in particular circumstances. Likewise, we may adopt a particular stance in certain circumstances to comply with special requirements (for example, restrictions on issuing research material during an offer period imposed by the Takeover Code). These may be spelt out in a special disclosure warning attached to such research material.

To resolve potential conflicts involved in selective disclosure of research, when analysts have formed an intention to write a piece of research and have started to form ideas about the content of the research they must not discuss this intention nor the potential content of the research with anyone outside the research department except for the purpose of checking factual accuracy as set out above, until such time as the research has been distributed to all relevant clients. Only the Research Department and the IT administrator have access to research in production.

Our policies and procedures forbid the selective disclosure of research and all our employees are strictly prohibited from dealing ahead of research either for their own account or for clients. Breach of these policies would be treated as a serious disciplinary matter.

Personal account dealing

Our investment analysts are permitted to invest on their own account in securities in relation to which they prepare research, whether on that particular investment, its issuer, or on related investments and issuers. However, they are not permitted to buy or sell relevant securities during the period when they know that research affecting those securities is being prepared for publication, nor until clients have had a reasonable opportunity to act on it. In addition, they may only deal in relevant securities if the deal is not contrary to their published recommendation, except in exceptional circumstances and with prior written permission from the Compliance Officer, to raise cash to meet pressing unrelated financial obligations.

Monitoring

The effectiveness of these policies and procedures is monitored by the Compliance department as part of the firm's regular compliance monitoring programme.