SEYMOUR PIERCE LIMITED
PILLAR 3 DISCLOSURE

BACKGROUND

Seymour Pierce Limited ("SPL") is authorised and regulated by the Financial Services Authority ("FSA"). The FSA is responsible for the implementation in the UK of the EU Capital Requirements Directive, which sets the regulatory capital framework for the financial services industry in Europe. The CRD framework consists of three pillars:

- Pillar 1 specifies the minimum amount of capital that a financial services firm is required to maintain to support its business;
- Pillar 2 requires the firm to assess whether any additional capital should be maintained against any risks not adequately covered under Pillar 1, and the FSA then to review this process;
- Pillar 3 specifies the disclosures which the firm is required to make about its capital, its risk exposures and its risk assessment processes.

The FSA rules governing Pillar 3 disclosures provide that the firm may choose not to disclose information which is not material. The firm may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted (BIPRU 11.3.7).

BUSINESS STRUCTURE

SPL is incorporated in England & Wales and is a wholly owned subsidiary of Seymour Pierce Holdings Limited ("SPH"), which is in turn 29.9% owned by the private equity firm Alchemy Partners. SPL is the only operating company in the group and the disclosures in this document relate to the business of SPL. For the purposes of reporting to the FSA, SPL and SPH are fully consolidated and together form a UK Consolidated Group.

CONSOLIDATION

As a member of a group, the firm prepares accounts on a fully consolidated basis for accounting purposes under UK GAAP. The accounts of the group and of the subsidiary companies are prepared on the going concern basis.

Consolidated supervision reports prepared for the purpose of providing prudential returns to the FSA require each company in the group to assess the capital held and the capital required in accordance with the provisions set out in BIPRU 8 of the FSA Handbook. This requires all regulated firms within the group to maintain adequate capital resources so as to meet their capital requirements. Unregulated firms are not required to meet capital requirements on an individual basis provided there is adequate capital in the group as a whole.

There is no current or foreseen legal or practical impediment to the prompt transfer of capital resources, or repayment of liabilities, intra-group.

Capital resources exceed the required minimum in all group companies and no entities are excluded from the consolidation other than three dormant nominee companies.

The firm's year-end is 30 September.

RISK MANAGEMENT

SPL is an entrepreneurial business which wishes to retain the flexibility to take advantage of market opportunities as they arise. It recognises the wide range of risks inherent in its business model and seeks to manage and mitigate these risks rather than eliminate them.

The Finance department of SPL, which reports to the Chief Operating Officer and is independent of all revenue-generating departments, is responsible for monitoring and managing the firm's exposure to risk. The most material risks arising in relation to SPL's business are:

Business risk

Business risk is defined as is the risk arising from changes in the business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. This includes macro-economic, geopolitical, industry, regulatory and other external risks that might deflect the firm from its desired strategy and business plan.

SPL's main business risk is its dependence on its corporate finance business and in particular upon the strength of the AIM market and investors' appetite for IPOs. This appetite is in turn influenced by a myriad of geopolitical, industry, regulatory and other external risks. SPL has an ongoing strategy to mitigate and reduce this risk by diversifying its revenue streams into related activities which are less correlated with the equity primary market business.

Credit risk

Credit risk is defined as the risk of loss due to a debtor's non-payment of a loan or other credit. In the context of SPL's business, the most significant risks are non-payment of corporate finance fees and the counterparty risk element that clients or counterparties fail to settle securities transactions. The controls in place to mitigate this risk are set out below and SPL is satisfied that these controls are adequate for the nature of the business being undertaken.

Given the relatively small extent of its credit risk exposure, SPL chooses to use the simplest method of calculating its credit risk, which is the standardised approach under BIPRU 3.4.

With a large proportion of its revenues deriving from corporate finance business, at any one time the firm has a relatively large trade debtors figure, arising from corporate finance retainers and transaction fees yet to be paid by the corporate clients. Retainer fees are invoiced quarterly in advance and SPL operates an appropriate accounting policy for bad and doubtful debts. The firm monitors outstanding corporate debtors and ensure that appropriate action is taken to recover the debts.

Trading book debtors derive from the firm's trading activity – market making, and agency broking for institutional and private clients - the risk being that clients or counterparties fail to settle their transactions. However, this risk is significantly mitigated because these transactions are all settled on a Delivery-vs-Payment basis through the CREST system. As this system ensures that cash and/or securities are not released to the client/counterparty until such time as the relevant securities and/or cash are received from the client/counterparty, the credit risk is in effect replaced by market risk: if SPL does not receive cash from the client, SPL will still have the securities and can sell these in the market to recover the debt. The risk is then the market risk that the value of the securities will have fallen in the intervening period. The risks of these settlement failures are mitigated by the following methods:

- The imposition of maximum sizes of transactions that may be undertaken by clients;
- The imposition of debit interest at a punitive rate for late payments by clients;
- The imposition of procedures and controls on the types of trading that may be undertaken by private clients. New clients are required to provide the cash and/or securities upfront before SPL will execute a trade for them, and clients are required to have cleared funds in their accounts before SPL will enter into a placing agreement on their behalf; and
- Close monitoring of the settlement of all trades to ensure that any trades that are not on track to settle on the Intended Settlement Date are followed closely and the appropriate corrective action taken.

Market risk

Market risk is defined as the risk that the value of an investment will decrease due to market movements. The four main factors are equity market risk, interest rate risk, currency risk and commodity risk, of which only the first is significant for SPL. The firm's appetite for market risk and the controls and policies in place to manage this risk are set out below and SPL is satisfied that these controls are adequate for the nature of the business being undertaken.

Given the relatively small extent of its trading activities, SPL chooses to use the simplest method of calculating its equity market risk, which requires it to take a market risk requirement of 12% of the value of its gross positions in accordance with BIPRU 7.3.29.

SPL often holds positions in small cap stocks for which liquidity may be reduced. If positions are much larger than the normal market size for the security the quoted bid prices may not represent a realistic price that SPL could actually achieve for selling its positions. Accordingly, the firm has documented policies to apply a discount to the market price in valuing these positions. Variations from this policy must be authorised in writing by senior management and the Finance department is responsible for monitoring these prices continuously to ensure that they represent an appropriate discount to the market price, and that the authorisation is properly documented.

Whenever the firm proposes to take an unusually large position, or to undertake a new type of trading or business, or to undertake existing activities but in a new combination, formal modeling of the effect on the firm's Market Risk Capital Component is undertaken and signed off by senior management before the activity is undertaken.

Foreign Exchange risk

Foreign exchange risk is the risk that profitability will be impaired by currency fluctuations. For SPL this arises in relation to:

- Market making in securities denominated in USD. Volumes and sizes of such positions are expected to remain very low;
- The currency management business which accrues its income monthly in USD, so SPL is exposed to foreign exchange risk on these debtor balances until the management fees are actually received and converted into GBP. This risk is currently low but is expected to grow in line with the projected growth of this business.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes: reputational risk, implicit support risk, legal and regulatory risk and the risk that the business is exposed to financial crime (eg from money laundering, fraud or inadequate data security). The firm has documented an operational risk policy which is maintained up-to-date and approved by the Board. This is then supplemented by a Key Risks and Controls manual which sets out the internal systems and controls within the firm which are designed to mitigate the main risks faced by the business. In particular, the management and monitoring of outsourcing relationships is a key control for the firm, but SPL is satisfied that the controls in place for these and the other aspects of operational risk are adequate for the nature of the business being undertaken.

SPL chooses to use the basic indicator approach for operational risk in accordance with BIPRU 6.3, thus requiring capital equal to 15% of the three-year average of the firm's net income.

SPL also mitigates its operational risk by means of Professional Indemnity, Directors and Officers Liability and Comprehensive Crime insurance policies.

Liquidity Risk

Liquidity risk is defined as the risk that the firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The firm's liquidity risk policy has been documented and approved by the Board and the firm has appropriate cashflow management policies and procedures in place.

Concentration Risk

Concentration risk is the additional risk to which a firm is exposed because of a concentration of its business – such as concentrated exposure to one geographical region, or one industrial sector, or one client. SPL is exposed to concentration risk because a large proportion of its revenues derive from the corporate finance business, most of which is linked to the AIM market, as described above.

ASSESSMENT OF THE ADEQUACY OF CAPITAL

CAPITAL RESOURCES

As at 30 September 2008 the capital resources of SPL comprise:

Tier 1 Capital:	**£**
Issued and called up share capital	1,460,000
Audited Reserves	5,571,548
	7,031,548

In addition, SPL can treat its net interim trading book profit arising from its equity market making business as Lower Tier Three Capital to the extent that this exceeds the firm's Market Risk capital requirement.

CAPITAL REQUIREMENT

As at 30 September 2008, the firm's Pillar 1 capital requirement was £4,427,000. This has been determined by reference to the sum of the firm's credit risk, market risk and operational risk requirements, which exceed the firm's base capital requirement of €730,000.

SATISFACTION OF CAPITAL REQUIREMENTS

The firm's approach to assessing the adequacy of its internal capital to support its current and future activities is documented in its Internal Capital Adequacy Assessment Process ("ICAAP"), which includes an assessment of each of the risks faced by the firm and the internal controls in place to mitigate those risks. This is then stress-tested against various scenarios.

Since the firm's ICAAP (Pillar 2) process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate to continue to finance the firm over the next year. The firm expects to continue to be profitable but to the extent that any additional capital injections were considered necessary its existing shareholders have confirmed their likely support.

Seymour Pierce Ltd
December 2008