

Regulatory Announcement

Company Merchant Securities PLC
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News release

Merchant Securities plc **("MS" or "the Company")**

Acquisition of John East & Partners Limited group, placing to raise £1.5 million and appointment of a new director

The Acquisition

MS is pleased to announce that it has entered into an agreement (the "Agreement") to acquire the entire issued ordinary share capital of East, Worlidge Holdings Limited (the "Acquisition") for a consideration of £4.9 million, of which £2.3 million shall be satisfied in cash and the remaining £2.6 million to be satisfied by the issue of 7,428,571 new ordinary shares of 10p in the capital of the Company ("Consideration Shares"). The Agreement is conditional upon the admission to AIM of the Consideration Shares.

Further consideration may become payable in cash on a pound for pound basis following the sale of investments owned by East, Worlidge Holdings Limited ("EWH") and the cash consideration will be adjusted, on a pound for pound basis, to the extent that EWH's net current assets exceed, or fall short of, £900,000. MS has also agreed to acquire the B share capital of EWH for a cash consideration of £186,045. The only asset attributable to the EWH B shares is cash of £186,045 arising from a sale of shares in the London Stock Exchange plc.

EWH is the holding company for John East & Partners Limited ("JEP"). JEP is a member firm of the London Stock Exchange, specialising in providing corporate finance advice and raising capital for smaller public companies and companies seeking a public listing. It is authorised to act as a nominated adviser to companies whose shares are quoted on AIM and is currently nominated adviser to 33 AIM companies (and broker to 22 of these companies), a sponsor to companies which are officially listed and is retained financial adviser to one such company and is a corporate adviser to Plus market companies and has

one such retained client. Its scope of work is broad and covers IPO advice and fundraising, secondary fundraisings, public company takeover transactions and the provision of general financial advice. JEP was shortlisted by Growth Company Investor for the AIM adviser of the year award in 2003, 2004, 2005 and 2007. JEP employs 11 members of staff, of which seven are employed in corporate finance, one in institutional distribution and three in administration, finance and compliance.

In the year ended 31 December 2006, EWH earned a consolidated net profit before exceptional items and taxation of £452,000 on turnover of £2.36 million and had consolidated net assets attributable to ordinary shareholders on that date of £859,000. Its unaudited management accounts for the eight month period ended 31 August 2007, showed a consolidated net profit before exceptional items and taxation of £461,000 for the period and consolidated net assets attributable to ordinary shareholders of £1.227 million on that date. EWH's shareholders are John East, David Worlidge and members of his family, Simon Clements and his wife and Marylebone Property Holdings Limited.

On completion of the Acquisition, John East will join the Board of the Company, John East and David Worlidge will join the board of Merchant Securities Group Limited ("MSGSL"), the Company's operating subsidiary and Tony Fabrizi, Chief Executive of MS, will join the Board of JEP.

It is intended that JEP will continue as a separate commercial entity operating in the ordinary course of business. However, there are a number of benefits which the directors of MS believe will accrue to the enlarged group as a result of the Acquisition. In particular, they believe that:

- MSGL's fund raising capabilities in the private equity and pre-IPO markets and its corporate finance activities will benefit significantly from the addition of a nominated adviser to the group, providing the opportunity for increased activity generally and greater client retention;
- JEP's institutional distribution activities will benefit from the institutional trading, research activities and private equity capability of MSGL;
- additional business opportunities will result from the ability to offer a fully integrated service and referrals of clients across the group;
- the Acquisition will provide the group with greater critical mass, provide economies of scale and raise the profile of both MS and JEP; and
- as a member of a publicly quoted group, JEP will be able to use share incentives to reward and retain its high calibre team and attract additional executives.

The Placing

In order to settle part of the cash element of the consideration, MS has raised £1.5 million by a placing (the "Placing") of 4,298,700 new MS ordinary shares of 10p in the capital of the Company at 35p per share ("Placing Shares"). As part of the placing, each director of the Company has agreed to subscribe for Placing Shares. Their subscriptions, consequent shareholdings and percentage shareholdings of the Company's share capital following the subscription, are as follows:

| | Shares subscribed | Consequent shareholding | Percentage shareholding % |
|--|----------------------|----------------------------|------------------------------|
| John Green (non-executive chairman) | 42,857 | 125,431 | 0.40 |
| Tony Fabrizi (chief executive) | 500,000 | 5,458,001 | 17.52 |
| Patrick Claridge (chief operating officer) | 357,142 | 1,348,028 | 4.32 |
| Steven Whelton (finance director) | 28,571 | 61,601 | 0.19 |
| Charles Price (non-executive director) | 85,714 | 416,009 | 1.33 |
| John East (proposed director) | 143,229 | 3,495,000 | 11.22 |

The total contribution of the directors is £405,130 and, following completion of the Acquisition and Placing, the board's aggregate shareholding (including that of John East) will be 10,904,070 Shares, equivalent to approximately 35 per cent of the enlarged MS issued share capital.

The Placing Shares and the Consideration Shares will, when issued, rank pari passu in all respects with the existing Ordinary Shares in issue, including the right to receive any dividends and other distributions declared following their admission to trading on AIM.

It is expected that admission of the Placing Shares and the Consideration Shares to trading on AIM will become effective and that dealings will commence on 9 October 2007.

Appointment of Director

John Richard Alan East, aged 58, has entered into a new service agreement with JEP as Executive Chairman dated 3 October 2007, for an initial period of 12 months, subject to termination on six months' notice thereafter by either party. The agreement provides for an initial annual salary of £150,400 per annum. In addition to his salary, the Company will pay for private medical insurance for John East and his family and contribute to his personal pension at the rate of 15 per cent. of his annual salary per annum. Under the terms of an engagement letter dated 3 October, 2007, John East has been appointed, conditional upon the completion of the Acquisition of EWH, as a director of the Company.

John East's current directorships are set out below:

East, Worlidge Holdings Limited
John East & Partners Limited
Vestry Nominees Limited
Barwood Securities Limited
Carlton Club (London) Limited
Carlton Club (Trustees) Limited
Carlton Club Collection Limited

Mr East was a director of The Guidehouse Group plc which was placed into administrative receivership (along with a number of its subsidiaries, of which he was also a director) on 18 December 1991. The estimated total deficiency as regards creditors was £2.42 million. He has confirmed that there are no other matters to be disclosed in relation to Schedule 2 (g) of the AIM Rules.

Following completion of the Acquisition and the Placing, John East will hold 3,495,000 MS ordinary shares, equivalent to 11.22 per cent of the enlarged MS ordinary share capital.

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As all the directors of MS are participating in the Placing this constitutes a related party transaction under Rule 13 of the AIM Rules for Companies. The directors of MS having consulted with their nominated adviser, Arden Partners Limited, consider that the terms of the Placing are fair and reasonable insofar as shareholders of MS are concerned.

Merchant Securities' Chief Executive Officer Tony Fabrizi commented:

“We believe that the Acquisition represents a transforming change for the business and will deliver significant benefits across the group. JEP has been a highly respected Nomad for many years and it's our joint aspiration to develop the Nomad and institutional business together to provide a high calibre service aimed at UK small companies.

We are also delighted to welcome John East to the Board of the Company and believe that his experience will be invaluable to the business. Overall, we intend to use this transaction as a platform to build a broadly based financial services group that provides services to corporate clients, institutional investors and private investors.”

John East, Executive Chairman of JEP, commented:

“We are delighted to be joining forces with Merchant Securities and becoming a part of the Merchant Securities Group. We believe that the enhanced range of expertise and services available across the enlarged group will bring considerable benefit to our clients and other stakeholders”

About Merchant Securities plc

Merchant Securities plc provides a range of financial service products and advice to high net worth private clients, institutions and small businesses. The Company's main operating subsidiary, Merchant Securities Group Limited, is authorised by the Financial Services Authority and provides a variety of services, including asset and advisory management to high net worth private clients, sales trade institutional investors, and private equity funding and corporate advice for small UK companies.

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