

News release
27 June 2008

Merchant Securities plc

Issue of Equity and Capital Reorganisation

Merchant Securities plc, the financial services company specialising in private client and institutional stockbroking, corporate finance services and private equity, announces a placing of 15,750,000 Ordinary Shares ("the Placing") to raise £1.58 million, before expenses, at a price of 10p per share.

Salient points

- Placing strengthens the capital resources of the group
- Placees include management, Gartmore Investment and a new institutional investor - Dom Maklerski IDM Spółka Akcyjna ("IDMSA"), a Polish independent, non-bank brokerage house with 18 offices throughout Poland. IDMSA was established in 1998 and is a member of and listed on the Warsaw Stock Exchange with a market capitalisation of approximately £75 million
- Following the Placing, IDMSA will become the group's largest shareholder with 17.06%
- Conditional upon shareholder approval at a General Meeting on 21 July 2008, the new shares will commence trading on AIM on 22 July 2008
- Proposed capital reorganisation of the Company's authorised and issued existing ordinary shares from the present level of 10p per share, into one new ordinary share with a nominal value of 1p each and one deferred share with a nominal value of 9p each.

Patrick Claridge, acting Chief Executive, Merchant Securities says:

"We are very pleased that IDMSA has become a shareholder in the group and look forward to building on this relationship. The strategy for Merchant Securities continues to be the development of a diversified and well balanced financial services group.

"The group has a very clear objective to grow revenues, contain costs and provide increasing shareholder value through the expansion of our institutional broking activities, our private client investment management business and John East & Partners Limited, our corporate finance subsidiary. The Placing will enable us to further invest in these areas and assist in achieving our objectives."

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

Issue of Equity and Capital Reorganisation

The Board of Merchant Securities, the financial services company specialising in private client and institutional stockbroking, corporate finance services and private equity, announces a placing of 15,750,000 Ordinary Shares ("the Placing") to raise £1.58 million, before expenses, at a price of 10p per share. The Company also announces details of a capital reorganisation.

Background to and reasons for the Placing

In its trading statement made on 1 May 2008, the Company reported that it expected to have incurred a loss after taxation for the year ended 31 March 2008, in the region of £600,000, after taking account of non-recurring items of approximately £400,000. These items included the fine of £77,000 imposed on its stockbroking subsidiary Merchant Securities Group Limited ("MSG") by the FSA, announced on 17 June 2008 and the expenses incurred incidental to this.

Tony Fabrizi, the Company's former chief executive, resigned from this position and as a director of the Company and its subsidiaries on 12 June 2008, and was replaced in an acting capacity by Patrick Claridge, formerly chief operating officer.

The effect of this trading loss and current market conditions have been to deplete the Company's resources, although MSG and John East & Partners Limited, the Company's corporate finance and corporate broking subsidiary, ("JEP") individually, and the Group as a whole have a surplus of resources above the Pillar 1 capital requirement, which is the FSA's minimum capital requirement. However, the directors of the Company consider it essential to increase the buffer between the Merchant Securities group's resources and the minimum capital required by the FSA, in order to enable it to continue to trade comfortably in current market conditions and to take advantage of opportunities which may present themselves.

It is the board's view that the Placing is the most appropriate means of providing additional working capital for the Company. The cost of funds raised through the Placing will be substantially less than those for an open offer or rights issue to shareholders, which would have cost the Company a significantly higher percentage of the funds being raised. The Placees include Gartmore Investment Limited, ("Gartmore") which is currently the largest institutional shareholder in the Company and Dom Maklerski IDM Spółka Akcyjna ("IDMSA"), which is a Polish independent, non-bank brokerage house with 18 offices throughout Poland. IDMSA was established in 1998 and is a member of and listed on the Warsaw Stock Exchange with a market capitalisation of approximately £75 million. In 2007 IDMSA concluded fund raising transactions with a total value of approximately £500 million. We are pleased to have the continuing support of Gartmore and welcome the involvement of IDMSA, where we hope for a strategic and collaborative relationship. The other placees are Patrick Claridge, acting chief executive of the Company and of MSG, John East, an executive director of the Company and the executive chairman of JEP, Chris Hyde, group finance director and David Worlidge, managing director of JEP. The respective subscriptions of these placees are set out under the paragraph headed "The Placing" below.

The Placing

The Company has raised £1.575 million before expenses (£1.51 million, net of expenses) by means of the Placing, under which it proposes to issue 15,750,000 New Ordinary Shares at 10p per New Ordinary Share. The subscribers in the Placing named above and their shareholdings following the Placing will be as follows:

	Number of Existing Ordinary Shares	Number of Placing Shares	Number of New Ordinary Shares	%
IDMSA	-	8,000,000	8,000,000	17.06
Gartmore	3,499,505	4,000,000	7,499,505	15.99
Patrick Claridge	1,348,028	1,000,000	2,348,028	5.01
John East	3,495,000	1,000,000	4,495,000	9.58
Christopher Hyde	-	500,000	500,000	1.07
David Worlidge	2,062,857	500,000	2,562,857	5.46

The Placing is conditional upon the passing of the resolutions to be proposed at a General Meeting of the Company convened for 10 a.m. on 21 July 2008 and on admission of the shares placed to trading on AIM ("Admission"). The placing shares, when issued and fully paid, will rank equally in all respects with the other ordinary shares in issue, including the right to receive all dividends and other distributions declared, made or paid after Admission.

It is expected that Admission will become effective and that trading on AIM will commence on 22 July 2008.

Capital Reorganisation

Company law prevents a company from issuing fully paid shares at a discount to the nominal, or par, value of its shares. Accordingly, so as to leave a margin between the nominal value of the Company's shares and the placing price, the directors of Merchant Securities consider that it is desirable to reduce the nominal value of the Company's authorised and issued existing ordinary shares from the present level of 10p per share.

To give effect to this it is proposed that each existing ordinary share will be sub-divided into:

one new ordinary share with a nominal value of 1p each ("New Ordinary Shares"); and one deferred share with a nominal value of 9p each ("Deferred Shares").

The Deferred Shares will have no voting rights and will not carry any entitlement to receive notice of and attend general meetings of the Company. Holders of the Deferred Shares will not be entitled to any dividend or other distribution and on a return of capital they will be entitled to receive only the amount paid up or credited as paid up on each Deferred Share, but only after the holders of each New Ordinary Share have received the amount paid up on each New Ordinary Share.

Accordingly, the Deferred Shares will, for all practical purposes, be valueless and it is the Board's intention, at an appropriate time, to make application to the High Court for the Deferred Shares to be cancelled.

Existing share certificates will continue to be valid for the New Ordinary Shares arising from the Capital Reorganisation, but no certificates will be issued in respect of Deferred Shares.

The Placing is conditional on the capital reorganisation and on Admission.

Strategy

The Directors' strategy continues to be to create a diversified and well balanced financial services group. Its operating subsidiaries are both members of the London Stock Exchange plc: MSGL, a private client and institutional stockbroking firm and JEP, a corporate finance firm and an approved nominated adviser and broker to companies whose shares are traded on AIM.

MSGL intends to develop further its private client investment management activities, with a particular emphasis on improving the quality of its business and increasing recurring fee income from fund management. It has also strengthened its institutional department with the recruitment of a highly rated specialist research and sales team. These initiatives, which are ongoing, are expected to increase the scale and quality of its operations.

JEP has 39 retained clients, of which 37 are companies traded on AIM, to which it acts as Nominated Adviser and also, in 27 cases, broker. JEP intends to increase the number of companies for which it acts by targeting other AIM quoted companies and by attracting new companies seeking admission to AIM. JEP also intends to increase the size of placings which it undertakes by increasing the size of its corporate broking department and working more closely with MSGL.

The Directors intend to build on these activities, with the intention of improving the Group's revenues, containing costs and providing increasing shareholder value.

General Meeting

A General Meeting of the Company has been convened for 10.00 a.m. on 21 July 2008 at the offices of Nabarro LLP, Lacon House, Theobald's Road, London, WC1X 8RW.

The Company expects to announce its results for the year ended 31 March 2008 in the second half of July 2008.

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