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**RECOMMENDED CASH OFFER**

by

**SANLAM PRIVATE INVESTMENT HOLDINGS UK LIMITED (“Bidco”)**

**a direct wholly-owned subsidiary of Sanlam UK Limited and an indirect wholly-owned subsidiary of Sanlam Limited**

**to acquire the entire issued and to be issued ordinary share capital of**

**MERCHANT SECURITIES GROUP PLC (“Merchant”)**

**other than those shares already owned by Principal Nominees Limited, a nominee of Bidco, those shares already contracted to be acquired by Bidco and any treasury shares in issue (except to the extent these cease to be held as treasury shares before the Offer becomes unconditional as to acceptances, or such earlier date as Bidco may, subject to the City Code, decide)**

**Summary**

- The Independent Directors of Merchant and the Directors of Bidco are pleased to announce that they have reached agreement on the terms of a recommended cash offer to be made by Bidco to acquire the entire issued and to be issued ordinary share capital of Merchant, other than those shares already owned by Principal Nominees Limited, a nominee of Bidco, those shares already contracted to be acquired by Bidco under the terms of the Acquisition Agreement and any treasury shares in issue (except to the extent these cease to be held as treasury shares before the Offer becomes unconditional as to acceptances, or such earlier date as Bidco may, subject to the City Code, decide).
- The Offer is being made at a price of 22p (twenty-two pence) in cash for each Offer Share and represents a premium of approximately 91.30 per cent. to the Closing Price of 11.5p (eleven point five pence) per Offer Share on 30 August 2011, being the last Business Day before the commencement of the Offer Period and a premium of approximately 34.02 per cent. to the average Closing Price of approximately 16.4p (sixteen point four pence) per Offer Share for the six month period before the commencement of the Offer Period.
- The Offer values the entire issued and to be issued ordinary share capital of Merchant at £12.247 million (twelve million two hundred and forty seven thousand pounds) on a fully diluted basis.
- Bidco is a direct subsidiary of Sanlam UK and an indirect wholly-owned subsidiary of Sanlam. Sanlam UK is a holding company for Sanlam's businesses in the UK.
- Bidco has entered into the Acquisition Agreement with the Management Team (and certain of their Connected Persons) and the EBT who will exchange a majority of the Relevant Merchant Shares that they hold, representing in aggregate 22.27 per cent. of the fully diluted share capital of Merchant, for 12,395,114 B ordinary shares in Bidco, representing in aggregate 22.27 per cent. of the issued share capital of Bidco. Further, under the terms of the Acquisition Agreement, certain members of the Management Team (and certain of their Connected Persons) will sell 6,711,244 Relevant Merchant Shares, representing in aggregate 12.06 per cent. of the fully diluted share capital of Merchant, to Bidco for an aggregate cash payment of £1,476,473.68 (one million four hundred and seventy six thousand four hundred and seventy three pounds and sixty eight pence). The Manager Subscribers (and certain of their Connected Persons) together with the EBT will subscribe for additional B ordinary shares in Bidco at a subscription price of 22p (twenty-two pence) per B ordinary share.
- Bidco is a newly incorporated company that has been formed for the purpose of making the Offer and acquiring the Relevant Merchant Shares held by the Management Team (and certain of their Connected Persons) and the EBT under the Acquisition Agreement. Bidco is, as at the date of this announcement, wholly-owned by Sanlam UK. Following completion of the Acquisition Agreement it will be owned as to 75.00 per cent. by Sanlam UK who will hold A ordinary shares and 25.00 per cent. by the Management Team (and certain of their Connected Persons) and the EBT. The A ordinary shares and the B ordinary shares will, save as detailed in paragraph 2 of Appendix IV, rank *pari passu*. The

Acquisition Agreement is conditional upon the Offer becoming or being declared unconditional in all respects.

- The Offer is conditional, amongst other things, upon the Independent Shareholders passing the Ordinary Resolution to approve the Management Arrangements at a general meeting of Merchant and on the approval of the FSA to the change of control of Merchant.
- Principal Nominees Limited, a nominee of Bidco, already owns 5,000,000 Merchant Shares representing 9.69 per cent. of the issued ordinary share capital of Merchant as at the date of this announcement.
- Bidco has received irrevocable undertakings to accept the Offer from Merchant Shareholders in respect of a total of 15,335,176 Merchant Shares and from the Independent Directors in respect of 641,440 Merchant Shares representing, in aggregate, 30.98 per cent. of the issued ordinary share capital of Merchant as at the date of this announcement.
- The Independent Directors, who have been so advised by Grant Thornton, consider the terms of the Offer to be fair and reasonable. In providing its advice, Grant Thornton has taken into account the commercial assessments of the Independent Directors.
- Accordingly, the Independent Directors unanimously recommend that Merchant Shareholders accept the Offer. The Independent Directors have irrevocably undertaken to accept the Offer in respect of the Merchant Shares which they legally own and to instruct the registered holder to accept the Offer in respect of the Merchant Shares which they beneficially own (or are owned by certain of their Connected Persons), representing 1.24 per cent. of the issued ordinary share capital of Merchant as at the date of this announcement.
- Following the Offer becoming or being declared unconditional in all respects and subject to any applicable requirements of the AIM Rules, Bidco intends to procure that Merchant applies to the London Stock Exchange for the cancellation of trading in Merchant Shares on AIM.
- Bidco will dispatch the Offer Document to the Independent Shareholders and, for information only, to holders of share options in Merchant as soon as practicable and, in any event, within twenty-eight days of this announcement.
- Appropriate proposals will be made to holders of options under the Merchant Share Option Schemes and other option holders (other than the Management Team).

Commenting on the Offer, Daniel Kriel, Chief Executive Officer of Sanlam Private Investments and Director of Bidco, said:

*“We are delighted to have agreed the terms for the Offer. This potential transaction would facilitate our entry into the UK stockbroking market and supports our strategy to expand our UK activities. The successful completion of this transaction will expand our existing product and service offering to both our South African and UK high net worth client base and would also enable us to provide clients with a global execution service from within our group. We searched for some time for the right UK business and identified Merchant Securities as a quality operation that will complement and add value to our team into the future.”*

Commenting on the Offer, John Green, Chairman of Merchant, said:

*“We are pleased to have agreed this Offer with Sanlam. The Offer Price represents a significant premium to both the current and recent market prices and enables shareholders to realise their investment for cash. We believe that the takeover by Sanlam will deliver attractive commercial advantages for both businesses and that together we will be able to accelerate growth opportunities and move to a new phase of growth in the UK.”*

This summary should be read in conjunction with, and is subject to, the full text of this announcement and the Appendices. The Offer will be made subject to the conditions which are set out in Appendix I to this announcement and the full conditions and further terms to be set out in the Offer Document and (in respect of Offer Shares held in certificated form) in the Form of Acceptance.

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**Further Information**

*Appendix I sets out the conditions to the Offer.*

*Appendix V contains definitions of certain terms used in this summary and the following announcement.*

*In accordance with Rule 2.10 of the City Code, Merchant confirms that it has 51,575,856 ordinary shares of 1p (one penny) each in issue and admitted to trading on the London Stock Exchange AIM market (EPIC: MERC).*

*Lincoln International, which is authorised and regulated in the UK by the FSA for investment business activities, is acting exclusively as financial adviser to Bidco and no one else in connection with the Offer and will not be responsible to anyone other than Bidco for providing the protections afforded to clients of Lincoln International or for providing advice in relation to the Offer or any other matters referred to in this announcement.*

*Grant Thornton, which is authorised and regulated in the UK by the FSA for investment business activities, is acting exclusively as financial adviser to Merchant and no one else in connection with the Offer and will not be responsible to anyone other than Merchant for providing the protections afforded to clients of Grant Thornton or for providing advice in relation to the Offer or any other matters referred to in this announcement.*

*This announcement is not intended to and does not constitute, or form any part of, an offer to sell or an invitation to subscribe for or purchase any securities or the solicitation of an offer to purchase or subscribe for any securities in any jurisdiction pursuant to the Offer or otherwise. The Offer will be made solely through the Offer Document, which will contain the full terms and conditions of the Offer (including details on how to accept the Offer). Any response in relation to the Offer should be made only on the basis of the information contained in the Offer Document and the Form of Acceptance or any other document by which the Offer is made. Merchant Shareholders are advised to read carefully the formal documentation in relation to the Offer once it has been dispatched. This announcement does not constitute a prospectus or prospectus equivalent document.*

**Overseas Shareholders**

*This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the UK. Unless otherwise determined by Bidco or required by the City Code and permitted by applicable law and regulation, the Offer will not be made, directly or indirectly, in or into, or by use of the mails, or by any means or instrumentality (including, without limitation, by means of telephone, facsimile, internet or other forms of electronic communication) of*

interstate or foreign commerce of, or any facilities of a securities exchange of, any Restricted Jurisdiction, and the Offer will not be capable of acceptance by any such use, means, instrumentality or facility or from within any Restricted Jurisdiction. Accordingly, unless otherwise determined by Bidco or required by the City Code and permitted by applicable law and regulation, copies of this announcement and any other related document are not being, and must not be, directly or indirectly, mailed or otherwise distributed or sent in or into any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not distribute or send them in, into or from such jurisdictions as doing so may make invalid any purported acceptance of the Offer by persons in any such jurisdiction.

The availability of the Offer to persons not resident in the UK may be affected by the laws of the relevant jurisdiction. Persons who are subject to the laws of any jurisdiction other than the UK should obtain professional advice and observe any applicable requirements.

### **Forward-looking statements**

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Bidco and Merchant and certain plans and objectives of the boards of directors of Bidco and Merchant. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. These statements are based on assumptions and assessments made by the boards of directors of Bidco and Merchant in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this announcement could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this announcement. Neither Bidco or Merchant nor their respective boards of directors assume any obligation to update or correct the information contained in this announcement, whether as a result of new information, future events or otherwise, except to the extent legally required.

The statements contained in this announcement are made as at the date of this announcement, unless some other time is specified in relation to them, and service of this announcement shall not give rise to any implication that there has been no change in the facts set out in this announcement since such date. Nothing contained in this announcement shall be deemed to be a forecast, projection or estimate of the future financial performance of Bidco or Merchant or any member of the Sanlam Group or Merchant Group except where expressly stated.

### **Dealing disclosure requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in 1.00 per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the tenth business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the tenth business day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1.00 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

*If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.*

*Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).*

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

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**other than those shares already owned by Principal Nominees Limited, a nominee of Bidco, those shares already contracted to be acquired by Bidco and any treasury shares in issue (except to the extent these cease to be held as treasury shares before the Offer becomes unconditional as to acceptances, or such earlier date as Bidco may, subject to the City Code, decide)**

**1. Introduction**

The Independent Directors of Merchant and the Directors of Bidco are pleased to announce that they have reached agreement on the terms of a recommended cash offer to be made by Bidco to acquire the entire issued and to be issued ordinary share capital of Merchant, other than those shares already owned by Principal Nominees Limited, a nominee of Bidco, those shares already contracted to be acquired by Bidco under the terms of the Acquisition Agreement and any treasury shares in issue (except to the extent these cease to be held as treasury shares before the Offer becomes unconditional as to acceptances, or such earlier date as Bidco may, subject to the City Code, decide).

**2. The Offer**

The Offer, which will be subject to the terms and conditions which are set out below and in Appendix I to this announcement and to the full terms and conditions to be set out in the Offer Document and, in respect of Offer Shares held in certificated form, in the Form of Acceptance, will be made by Bidco on the following basis:

**for each Offer Share                      22p (twenty-two pence) in cash**

The Offer values the entire issued and to be issued ordinary share capital of Merchant at £12.247 million (twelve million two hundred and forty seven thousand pounds) on a fully diluted basis.

The Offer represents a premium of approximately:

- (i) 91.30 per cent. to the Closing Price of 11.5p (eleven point five pence) per Offer Share on 30 August 2011, being the last Business Day before the commencement of the Offer Period; and
- (ii) 34.02 per cent. to the average Closing Price of approximately 16.4p (sixteen point four pence) per Offer Share for the six month period before the commencement of the Offer Period.

The Offer is conditional on, amongst other things,:

- (i) valid acceptances being received in respect of not less than 90.00 per cent. of the Offer Shares (or such lower percentage as Bidco may decide), provided that this condition will not be satisfied unless Bidco and/or any member of the Sanlam Group shall have acquired, or agreed to acquire, whether pursuant to the Offer or otherwise, Merchant Shares carrying in aggregate, more than 50.00 per cent. of the voting rights then normally exercisable at general meetings of Merchant;
- (ii) the Independent Shareholders passing the Ordinary Resolution to approve the Management Arrangements at a general meeting of Merchant; and
- (iii) the approval of the FSA to the change of control of Merchant.

Full details of the conditions to which the Offer is subject are set out in Appendix I to this announcement.

The Offer extends to all Offer Shares.

Pursuant to the Offer, the Offer Shares will be acquired fully paid and free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and other third party rights or interests and together with all rights attaching to such Offer Shares, including without limitation, the right to receive all dividends and other distributions (if any) announced, declared, made or paid after the date of this announcement.

The Offer does not extend to the Deferred Shares as these are not relevant securities for the purposes of the City Code. It is intended that the Deferred Shares will be transferred to Bidco for nil consideration in accordance with the Articles of Association of Merchant once the Offer has been declared or otherwise becomes wholly unconditional.

### **3. Background to and reasons for the Offer**

There is an increasing demand for a global wealth offering from the clients of Sanlam Private Investments in South Africa because of the relaxation and potential abolition in due course of exchange controls. The advisory and execution services of the Merchant Group will therefore be an important building block in expanding the capabilities of Sanlam Private Investments for the benefit of its existing and future client base.

The stockbroking, corporate finance, private equity and wealth management activities of the Merchant Group will complement the wealth management activities and other businesses controlled by Sanlam UK and should lead to cross-selling opportunities. The investment banking activities of the Merchant Group should benefit from the financial standing and reputation of Sanlam.

There will be new growth opportunities for the Sanlam Group from the execution by the Merchant Group of Sanlam's existing securities business in the UK and of UK transactions for Sanlam's operations overseas.

### **4. Management Team Arrangements**

The continued commitment of the Management Team to the development of Merchant has been key to Bidco's decision to proceed with the Offer. Terms have therefore been agreed for the Management Team to exchange a majority of the Relevant Merchant Shares that they hold for B ordinary shares in Bidco and for the Management Team to continue to provide the day-to-day management of the Merchant Group.

Bidco has entered into the Acquisition Agreement with the Management Team (and certain of their Connected Persons) and the EBT who will exchange a majority of the Relevant Merchant Shares that they hold, representing in aggregate 22.27 per cent. of the fully diluted share capital of Merchant, for 12,395,114 B ordinary shares in Bidco, representing in aggregate 22.27 per cent. of the issued share capital of Bidco. Further, under the terms of the Acquisition Agreement, certain members of the Management Team (and certain of their Connected Persons) will sell 6,711,244 Relevant Merchant Shares, representing in aggregate 12.06 per cent. of the fully diluted share capital of Merchant, to Bidco for an aggregate cash payment of £1,476,473.68 (one million four hundred and seventy six thousand four hundred and seventy three pounds and sixty eight pence). The cash price paid for Management Shares will be at a price equal to the Offer Price. The Manager Subscribers (and certain of their Connected Persons) and the EBT will subscribe in aggregate for an additional 1,522,587 B ordinary shares in Bidco at a subscription price of 22p (twenty-two pence) per B ordinary share in Bidco, representing 2.73 per cent. of the issued share capital of Bidco. In aggregate the Management Team (and certain of their Connected Persons) and the EBT will own 25.00 per cent. of the issued share capital of Bidco.

Appropriate proposals will be made to the holders of options under the Merchant Share Option Schemes and other option holders (other than the Management Team).

The Acquisition Agreement is conditional upon the Offer becoming or being declared unconditional in all respects. This condition may be waived by Bidco if, in order to declare the Offer unconditional as to acceptances, the purchase of Merchant Shares pursuant to the Acquisition Agreement is required to be counted towards fulfilling any condition of the Offer.

Bidco is a new company incorporated in England and Wales that has been formed for the purpose of making the Offer and entering into the Acquisition Agreement. Bidco is, as at the date of this announcement, a direct subsidiary of Sanlam UK and an indirect wholly-owned subsidiary of Sanlam.

Further information on the terms of the Management Arrangements are set out in Appendix IV.

Copies of the Acquisition Agreement, the Shareholders' Agreement, the Service Agreements and the proposed new Articles of Association of Bidco and Merchant will be on display on Merchant's and Sanlam UK's website ([www.merchantsecurities.co.uk](http://www.merchantsecurities.co.uk) and [www.sanlam.co.uk](http://www.sanlam.co.uk) respectively) from 12 noon on 1 November 2011 until the end of the Offer.

## **5. Recommendation**

Certain members of the Merchant Board are part of the Management Team and will have an involvement in the future management of Bidco and/or Merchant. As a consequence of this, only the Independent Directors are making a recommendation to Merchant Shareholders.

The Independent Directors, who have been so advised by Grant Thornton, consider the terms of the Offer to be fair and reasonable. In providing its advice to the Independent Directors in relation to the Offer, Grant Thornton has taken into account the commercial assessments of the Independent Directors.

Accordingly, the Independent Directors unanimously recommend that the Independent Shareholders accept the Offer. The Independent Directors have irrevocably undertaken to accept the Offer in respect of the Merchant Shares which they legally own and to instruct the registered holder to accept the Offer in respect of the Merchant Shares which they beneficially own (or are owned by certain of their Connected Persons), comprising in aggregate 641,440 Merchant Shares representing 1.24 per cent. of the issued ordinary share capital of Merchant as at the date of this announcement.

Grant Thornton has advised the Independent Directors that the terms of the Management Arrangements are fair and reasonable in so far as the Independent Shareholders are concerned. In providing its advice to the Independent Directors in relation to the Management Arrangements, Grant Thornton has taken into account the commercial assessments of the Independent Directors.

The Independent Directors also intend unanimously to recommend that the Independent Shareholders vote in favour of the Ordinary Resolution to approve the Management Arrangements, as the Independent Directors have irrevocably undertaken to do.

## **6. Background to and reasons for the recommendation of the Independent Directors**

In its financial results for the year ended 31 March 2011, announced on 28 July 2011, Merchant reported revenue ahead by 10.38 per cent. on the results for the previous year, to £8.401 million (eight million four hundred and one thousand pounds) and an increase in underlying profit before taxation of 33.69 per cent., on the same basis, to £1.115 million (one million one hundred and fifteen thousand pounds). Both the Private Client Wealth Management operations and the Investment Banking activities generated increased revenues over those earned in the previous year, and the Merchant Group's results for the year also benefited from a partial contribution from GT Independent Financial Advisers Limited, now renamed Merchant Securities Wealth Management Limited ("MSWM"), the wealth management company which was acquired in February 2011.

The results demonstrated continued underlying profitability, which started in the second half of the 2008-09 financial year, following an equity placing and management changes. The Independent Directors believe that this satisfactory performance is a result of the implementation of a clear strategy to focus on the core activities of Private Client Wealth Management and Investment Banking, alongside careful control of costs.

In line with the strategy to develop its presence in the wealth management sector, Merchant acquired MSWM in February 2011, which added critical mass to the existing business and doubled the Merchant Group's assets under advisory and discretionary management as well as bringing significant cross-selling opportunities. Merchant has also added further range and depth to its investment banking activities over the year, expanding equity research coverage and adding selectively to the sales team. Partly as a result of this, the number of retained corporate clients has increased by three this year, to thirty-one.

A move to new offices in the second quarter of the 2010-11 financial year, while incurring a non-recurring cost, has enabled a consolidation of the London operations more efficiently and also provides the space to accommodate future expansion. The Independent Directors believe that the Merchant Group is well placed to continue to grow; the full benefits of the acquisition of MSWM have yet to be felt and whilst trading conditions for the investment banking activities remain demanding, the pipeline of work with publicly quoted and private companies is encouraging.

In seeking to expand the business further, the Board of Merchant came to the conclusion that organic growth would be slower and more difficult to achieve than a merger with a like-minded partner. A number of discussions took place, before negotiations with Sanlam began, but the Board of Merchant concluded that they were unlikely to provide a satisfactory solution. In the current uncertain economic climate, the Board of Merchant formed the view that an offer from a substantial organisation, committed to the expansion of the company, which also gave shareholders an opportunity to realise their shares for cash, in an otherwise illiquid market, was in the best interests of all stakeholders.

Following the announcement of its final results, Merchant announced that it had received a preliminary approach from Sanlam "which may or may not lead to an offer for Merchant", as announced on 31 August 2011. Sanlam has now made the Offer, which the Independent Directors believe represents an attractive opportunity for Merchant Shareholders to realise their investments for cash and obtains fair value for them now for the long term potential of Merchant. The Offer represents a significant premium to the prevailing

share price at which Merchant Shares were trading prior to the commencement of the Offer period. In considering the merits of the Offer, the Independent Directors have also taken into account the confirmations received from Sanlam regarding safeguarding the existing employment rights of Merchant's employees.

Although Sanlam UK and/or Bidco have no strategic plans at the current time to make personnel changes or redeploy any of the fixed assets of Merchant, it is possible that there could be some changes and/or integration in certain areas of the Merchant Group in the future in order to achieve any operational synergies that are identified by the strategic and integration committees of the Sanlam Group. Furthermore, the Independent Directors understand that whilst Sanlam UK and/or Bidco may over time seek to consolidate operations in cities where the enlarged group has two offices, there are no current plans to change the locations of Sanlam UK's, Bidco's or Merchant's places of business.

## 7. Interest in Merchant Shares and irrevocable undertakings

Principal Nominees Limited, a nominee of Bidco, already owns 5,000,000 Merchant Shares representing 9.69 per cent. of the issued ordinary share capital of Merchant as at the date of this announcement.

Bidco has received irrevocable undertakings from Merchant Shareholders and from the Independent Directors of Merchant to accept the Offer in respect of the Merchant Shares which they legally own (and, in respect of the Independent Directors to instruct the registered holder to accept the Offer in respect of the Merchant Shares which they beneficially own or are owned by certain of their Connected Persons) in respect of a total of 15,976,616 Merchant Shares, representing, in aggregate, 30.98 per cent. of Merchant's issued ordinary share capital as at the date of this announcement, comprised as follows:

| <i>Shareholder</i>                           | <i>Number of<br/>Merchant<br/>Shares</i> | <i>% of<br/>Merchant<br/>Shares</i> |
|--|--|-------------------------------------|
| John Green (including his Connected Persons) | 225,431                                  | 0.44%                               |
| Charles Price                                | 416,009                                  | 0.81%                               |
| Henderson Global Investors Limited           | 4,770,000                                | 9.25%                               |
| IDMSA Brokerage House                        | 3,000,000                                | 5.82%                               |
| Roy Ruffler                                  | 2,166,591                                | 4.20%                               |
| Anthony Fabrizi                              | 1,918,001                                | 3.72%                               |
| Marylebone Property Holdings Limited         | 1,152,857                                | 2.24%                               |
| City & Continental LLP                       | 814,239                                  | 1.58%                               |
| David Barton                                 | 666,019                                  | 1.29%                               |
| Terry Tyrell                                 | 553,184                                  | 1.07%                               |
| Simon Rogers                                 | 294,285                                  | 0.57%                               |
|  | <u>15,976,616</u>                        | <u>30.98%</u>                       |

Each of the undertakings by the Independent Directors requires the relevant director/shareholder to accept the Offer in respect of the Merchant Shares which they legally own and to instruct the registered holder to accept the Offer in respect of the Merchant Shares which they beneficially own (or are owned by certain of their Connected Persons) within seven days of posting of the Offer Document (and to vote in favour of the Ordinary Resolution and any other resolution(s) to be proposed at the General Meeting). The undertakings given by the Independent Directors do not remain binding in the event that within seven days of the posting of the Offer Document a third party has announced a competing offer at a price in excess of 30p (thirty pence) per Merchant Share in cash, or with an equivalent cash alternative, which has been unanimously recommended by the directors of Merchant or the Independent Directors of Merchant, as the case may be, at that time.

Each of the undertakings by the Merchant Shareholders (other than the Independent Directors) requires the relevant Merchant Shareholder to accept the Offer within seven days of posting of the Offer Document other than in respect of Henderson Global Investors Limited who have twenty-one days in which to accept the Offer (and to vote in favour of the Ordinary Resolution and any other resolution(s) to be proposed at the General Meeting). The undertakings given by the Merchant Shareholders (other than the Independent Directors) do not remain binding in the event that within seven days of the posting of the Offer Document (or twenty-one days in respect of Henderson Global Investors Limited) a third party has announced a competing offer at a premium of at least 10.00 per cent. to the Offer Price in cash, or with an equivalent cash alternative, which (other than in respect of the undertaking given by Henderson Global Investors Limited) has been unanimously recommended by the directors of Merchant or the Independent Directors of Merchant, as the case may be, at that time.

Further details of these irrevocable undertakings are set out in Appendix III to this announcement. Copies of the irrevocable undertakings will be on display on Merchant's and Sanlam UK's website ([www.merchantsecurities.co.uk](http://www.merchantsecurities.co.uk) and [www.sanlam.co.uk](http://www.sanlam.co.uk) respectively) from 12 noon on 1 November 2011 until the end of the Offer.

## **8. Information on Bidco, Sanlam UK and Sanlam**

Bidco is a newly incorporated company in England and Wales that has been formed for the purpose of making the Offer and entering into the Acquisition Agreement. Bidco is, as at the date of this announcement, a direct wholly-owned subsidiary of Sanlam UK and an indirect wholly-owned subsidiary of Sanlam.

Sanlam UK is a wealth management player within retail financial services and provides specialist life and pension, investment management and financial advisory services in the UK. Sanlam UK acts as a holding company for the Sanlam Group's UK businesses. Its principal businesses are Sanlam Distribution, a business unit within Sanlam UK, Sanlam Life and Pensions Limited (trading as Sanlam Investments and Pensions) ("Sanlam Investments and Pensions"), Sanlam Private Wealth UK Limited ("Sanlam Private Wealth") and Principal Investment Management Limited ("Principal") trading as Principal, Border Asset Management and Sanlam Fund Solutions. Sanlam Distribution is a business promotion unit engaging with intermediaries, assisting the group businesses to achieve greater new business volumes. Sanlam Life and Pensions Limited, formerly Merchant Investors Assurance Company Limited, specialises in financial products in the affluent life and specialist pension market. Sanlam Private Wealth, formerly Buckles Investment Services Limited, provides financial planning services. Principal, a private client and retail investment management company, specialises in discretionary portfolio management for private individuals, family trusts, intermediaries and institutional clients. As well as these core businesses, Sanlam UK also has minority interests in the Nucleus Financial Group Limited, which provides 'wrap' investment administration services to selected IFAs, and Punter Southall Group Limited, which provides actuarial and investment management services.

Sanlam is the parent company of one of the largest financial services groups in South Africa. The Sanlam Group conducts its business through three business clusters: retail, institutional and short-term insurance. The corporate head office in Cape Town, South Africa is responsible for the group's centralised functions. From modest beginnings in 1918 as a small life insurance company, the Sanlam Group now comprises a number of businesses focusing mainly on wealth management and protection, investment management and ancillary financial solutions. The Sanlam Group has assets under management of over £40 billion (forty billion pounds) and has an AA- (zaf) national long term rating from Fitch International. The Sanlam Group has offices throughout South Africa and has business interests elsewhere in Africa, Europe, India, Australia and the USA. Sanlam demutualised in 1998 and then listed on the securities exchange operated by JSE Limited in Johannesburg and is now also listed on the Namibian Stock Exchange.

## **9. Information on Merchant**

Merchant provides a range of financial services to private clients, institutions and small businesses through its principal operating subsidiary, Merchant Securities Limited ("MSL") and MSWM.

MSL is a member of the London Stock Exchange and is authorised and regulated by the FSA. It is also a nominated adviser (Nomad) registered with the AIM market of the London Stock Exchange. MSL specialises in Private Client Investment Management and Wealth Management, Corporate Finance and Corporate Broking, Institutional Sales, Sales Trading and Research.

In February 2011, Merchant acquired MSWM. MSWM is a wealth management company and provides tailored financial planning advice to individuals and small to medium sized businesses. The range of services includes tax planning, pensions, income protection, inheritance tax, wills, mortgages and more. This acquisition doubled Merchant's assets under advisory and discretionary management to approximately £487 million (four hundred and eighty seven million pounds) with a total of approximately 7,500 clients as well as bringing significant cross-selling opportunities. Merchant has also added further range and depth to its investment banking activities over the year, expanding its equity research coverage and its sales team.

For the year ended 31 March 2011, Merchant reported underlying profits (before amortisation and non-recurring items) of £1.115 million (one million one hundred and fifteen thousand pounds) (31 March 2010: £0.834 million (eight hundred and thirty four thousand pounds)).

## **10. Management, employees and locations**

The Board of Bidco attaches great importance to the business of Merchant that has been built up as a result of the skills and experience of the Management Team. Bidco is committed to retaining these managers and employees and supporting them in growing the relationships with their clients. The Sanlam Group has an established and extensive wealth management and investment management business with a proven

financial and risk management support capability. Accordingly, Bidco intends, through the strategic and integration committees of the Sanlam Group, to identify operational synergies with the Merchant Group. Although there are no strategic plans at the current time to make personnel changes or redeploy any of the fixed assets of Merchant, it is possible that there could be some changes and/or integration in certain areas of the Merchant Group in the future in order to achieve any operational synergies that are identified by the strategic and integration committees of the Sanlam Group.

The stockbroking, corporate finance, private equity and wealth management activities of Merchant will complement the investment management activities of other businesses controlled by Sanlam UK, and should lead to cross-selling opportunities. The investment banking activities of Merchant should benefit from the financial standing and reputation of Sanlam.

There is a strong geographic fit between the businesses of Bidco's parent, Sanlam UK, and Merchant's businesses. Whilst Sanlam UK may over time seek to consolidate operations in cities where the enlarged group has two offices, there are no current plans to change the locations of Sanlam UK's, Bidco's or Merchant's places of business.

The only incentive arrangements for the benefit of the Management Team and other employees of Merchant that will be in place immediately following completion of the Offer will be in respect of the B ordinary shares in Bidco to be held by the EBT. The EBT will transfer B ordinary shares in Bidco to the Management Team once they have exercised their nil cost options at the expiry of their applicable two year vesting periods. The EBT will also hold a surplus amount of unallocated B ordinary shares that will be available for awards to other employees of the Merchant Group. The rules governing the terms of these share awards by the EBT will be on the same terms in all material respects to the existing awards. Other than in respect of the EBT B ordinary shares to be held in Bidco, no proposals have yet been made on the terms of any other incentive arrangements.

It is intended to amend the terms of the service agreements for certain members of the Management Team, being Patrick Claridge, Simon Clements, Nigel Gurney and Chris Coleman, in each case to provide for a twelve month guaranteed period of employment following Completion. During that time, Patrick Claridge, Simon Clements, Nigel Gurney and Chris Coleman can still exercise the current six months' notice period but Merchant can only do so after six months of the initial twelve month period. In the case of Patrick Claridge and Graeme Smith, their service agreements will also be amended to include post termination restrictive covenants. Bidco does not intend to effect any other material changes in conditions of employment.

Immediately following Completion, Daniel Kriel, Francois Bruwer, Lukas van der Walt, Hugh Titcomb and Simon Clements will be appointed to the Board of Merchant and John East, John Green and Charles Price will resign as directors of Merchant.

As at the date of this announcement, the Board of Bidco consists of Daniel Kriel, Lukas van der Walt and Johan van der Merwe. Immediately following Completion, Patrick Claridge, Simon Clements and Nigel Gurney as well as Francois Bruwer and Hugh Titcomb will be appointed to the Board of Bidco.

Following completion of the Offer, the existing employment rights, including pension rights, of the management and employees of Merchant will continue to be fully safeguarded.

Other than as referred to in this announcement, the business, management, employees, fixed assets and office locations of the Sanlam Group are not affected by the making of the Offer.

## **11. Independent Shareholder approval of the arrangements for the Management Team**

Under Rule 16 of the City Code, except with the consent of the Panel, an offeror or persons acting in concert with it may not make any arrangements with shareholders and may not deal or enter into arrangements to deal in shares of the offeree company, or enter into arrangements which involve acceptance of an offer, either during an offer period or when one is reasonably in contemplation, if there are favourable conditions attached which are not being extended to all shareholders.

The Offer to be made on the terms and conditions described in this announcement and to be set out in full in the Offer Document and the Form of Acceptance is subject to the passing of the Ordinary Resolution to approve the Management Arrangements.

In addition, also proposed to be passed at the General Meeting will be a special resolution, the provisions of which are conditional on the Offer becoming or being declared unconditional in all respects, to amend the articles of association of Merchant in such a way as to assist Bidco to become the owner of the entire issued and to be issued share capital of Merchant. Notice of the General Meeting will be sent separately to Merchant Shareholders together with an explanatory circular.

## **12. Financing of the Offer, options, the Acquisition Agreement and treasury shares**

The cash consideration payable by Bidco under the Offer for the Offer Shares of £6,605,361.62 (six million six hundred and five thousand three hundred and sixty one pounds and sixty two pence) and the cash consideration of £338,338.88 (three hundred and thirty eight thousand three hundred and thirty eight pounds and eighty eight pence) payable to participants in the Merchant Share Option Schemes and other option holders in respect of any Relevant Merchant Shares issued before or after the Offer becomes or is declared unconditional as to acceptances, will be funded by way of an equity subscription to be made to Bidco by Sanlam UK. Sanlam UK will fund its equity subscription in Bidco from its existing cash resources. In accordance with Rule 24.8 of the City Code, Lincoln International is satisfied that the necessary financial resources are available to Bidco to satisfy such cash consideration in full.

The cash consideration of £1,476,473.68 (one million four hundred and seventy six thousand four hundred and seventy three pounds and sixty eight pence) payable by Bidco under the Acquisition Agreement to certain members of the Management Team (and certain of their Connected Persons) for their Relevant Merchant Shares will also be funded by way of the equity subscription to be made to Bidco by Sanlam UK.

In respect of any treasury shares in issue (except to the extent these cease to be held as treasury shares before the Offer becomes unconditional as to acceptances, or such earlier date as Bidco may, subject to the City Code, decide), it is intended that such treasury shares will be transferred to Bidco for £478.28 (four hundred and seventy eight pounds and twenty-eight pence) in aggregate once the Offer has been declared or otherwise becomes wholly unconditional which will also be funded by way of the equity subscription to be made to Bidco by Sanlam UK.

## **13. Structure of the Offer**

The Offer is an offer for cash on the basis described in paragraph 2.

It is proposed that the Offer is implemented by way of a takeover offer within the meaning of Part 28 of the Companies Act, but Bidco may, with the agreement of the Independent Directors and the Panel, elect to implement the acquisition by way of a court-sanctioned scheme of arrangement under Part 26 of the Companies Act. Any such scheme of arrangement will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Offer.

## **14. Share option schemes**

The Offer extends to any Offer Shares which are unconditionally allotted or issued whilst the Offer remains open for acceptance (or by such earlier time and/or date as Bidco may, subject to the City Code and/or with the consent of the Panel, determine, but not being earlier than the date on which the Offer becomes or is declared unconditional as to acceptances) as a result of the exercise of options or other awards granted under the Merchant Share Option Schemes and other option agreements (excluding the exercise of any of the options held by the Management Team).

Participants in the Merchant Share Option Schemes and other option holders (other than the Management Team) will be contacted separately regarding the effect of the Offer on their options and Bidco will make appropriate proposals to such option holders.

## **15. Disclosure of interests in Merchant Shares**

Save as set out in paragraph 7 above and in respect of those Merchant Shares already held by Principal Nominees Limited, a nominee of Bidco, and the Management Shares, neither Bidco, nor (so far as Bidco is aware) any person acting, or deemed to be acting, in concert with Bidco for the purposes of the Offer has:

- (i) an interest in, or a right to subscribe for, Merchant Shares or in any securities convertible or exchangeable into Merchant Shares ("Relevant Merchant Securities");
- (ii) any short position in Relevant Merchant Securities (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery; or
- (iii) borrowed or lent any Relevant Merchant Securities (except for any borrowed Shares which have been either on-lent or sold) or has any arrangement in relation to Relevant Merchant Securities.

For these purposes, "arrangement" includes indemnity or option arrangements and any agreement or understanding, formal or informal, of whatever nature, relating to Relevant Merchant Securities which may be an inducement to deal or refrain from dealing in such securities.

## 16. Opening Position Disclosure

Sanlam UK has made an Opening Position Disclosure, setting out the details required to be disclosed by it under Rule 8.1(a) of the City Code.

## 17. Compulsory acquisition, delisting and cancellation of trading in Merchant Shares and re-registration

If Bidco receives acceptances under the Offer in respect of, and/or otherwise acquires or contracts to acquire, 90.00 per cent. or more in nominal value of the Offer and of the voting rights carried by those Offer Shares and assuming that all of the other conditions of the Offer have been satisfied or waived (if capable of being waived), Bidco intends to exercise its rights in accordance with sections 974 to 991 (inclusive) of the Companies Act to compulsorily acquire the remaining Offer Shares on the same terms as the Offer.

Following the Offer becoming or being declared unconditional in all respects and subject to any applicable requirements of the AIM Rules, Bidco intends to procure that Merchant applies to the London Stock Exchange for the cancellation of trading in Merchant Shares on AIM. It is expected that such cancellation will take effect no earlier than twenty Business Days after the Offer becomes or is declared unconditional in all respects (provided that Bidco has acquired, or agreed to acquire, issued ordinary share capital carrying 75.00 per cent. of the voting rights of Merchant). Delisting and the cancellation of trading of Merchant Shares will significantly reduce the liquidity and marketability of any Merchant Shares not acquired by Bidco.

It is also intended that, following the Offer becoming or being declared unconditional in all respects, Merchant will be re-registered as a private company under the relevant provisions of the Companies Act.

## 18. Expected timetable

Bidco will dispatch the Offer Document to the Independent Shareholders and, for information only, to holders of share options in Merchant as soon as practicable and, in any event, within twenty-eight days of this announcement.

## 19. General

There are no agreements or arrangements to which Bidco is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Offer.

Neither Bidco nor any person acting in concert with Bidco has any arrangement of the kind referred to in Note 6 on Rule 8 of the City Code.

Your attention is drawn to the further information contained in the Appendices which forms part of this announcement.

The conditions to the Offer and a summary of further terms in relation to the Offer set out in Appendix I to this announcement form part of, and should be read in conjunction with, this announcement.

Appendix V to this announcement contains definitions of certain terms used in this announcement.

The Offer will be subject to the applicable requirements of the City Code.

Please note that under Rule 2.12(c) of the City Code, all addresses, electronic addresses (if any) and certain other information provided by the Merchant Shareholders and other relevant persons for the receipt of communications from Merchant will upon request be provided to Bidco as required under section 4 of Appendix 4 of the City Code.

This announcement does not constitute an offer or an invitation to purchase or subscribe for any securities.

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### **Publication on website and availability of hard copies**

*A copy of this announcement will be made available, free of charge, at [www.merchantsecurities.co.uk](http://www.merchantsecurities.co.uk) and [www.sanlam.co.uk](http://www.sanlam.co.uk) by no later than 12 noon on 1 November 2011 and will be available during the course of the Offer. You may request a hard copy of this announcement, free of charge, by contacting Rose-Marie Sexton, the company secretary of Merchant on +44 (0)20 7260 1000 or Alexander Campbell of Bidco on +44 (0)11 7975 2007. You may also request that all future documents, announcements and information be sent to you in relation to the Offer should be in hard copy form.*

### **Further Information**

*Appendix I sets out the conditions to the Offer.*

*Appendix V contains definitions of certain terms used in this summary and the following announcement.*

*In accordance with Rule 2.10 of the City Code, Merchant confirms that it has 51,575,856 ordinary shares of 1p (one penny) each in issue and admitted to trading on the London Stock Exchange AIM market (EPIC: MERC).*

*Lincoln International, which is authorised and regulated in the UK by the FSA for investment business activities, is acting exclusively as financial adviser to Bidco and no one else in connection with the Offer and will not be responsible to anyone other than Bidco for providing the protections afforded to clients of Lincoln International or for providing advice in relation to the Offer or any other matters referred to in this announcement.*

*Grant Thornton, which is authorised and regulated in the UK by the FSA for investment business activities, is acting exclusively as financial adviser to Merchant and no one else in connection with the Offer and will not be responsible to anyone other than Merchant for providing the protections afforded to clients of Grant Thornton or for providing advice in relation to the Offer or any other matters referred to in this announcement.*

*This announcement is not intended to and does not constitute, or form any part of, an offer to sell or an invitation to subscribe for or purchase any securities or the solicitation of an offer to purchase or subscribe for any securities in any jurisdiction pursuant to the Offer or otherwise. The Offer will be made solely through the Offer Document, which will contain the full terms and conditions of the Offer (including details on how to accept the Offer). Any response in relation to the Offer should be made only on the basis of the information contained in the Offer Document and the Form of Acceptance or any other document by which the Offer is made. Merchant Shareholders are advised to read carefully the formal documentation in relation to the Offer once it has been dispatched. This announcement does not constitute a prospectus or prospectus equivalent document.*

### **Overseas Shareholders**

*This announcement has been prepared for the purpose of complying with English law and the City Code and the information disclosed may not be the same as would have been disclosed if this announcement had been prepared in accordance with the laws of jurisdictions outside the UK. Unless otherwise determined by Bidco or required by the City Code and permitted by applicable law and regulation, the Offer will not be made, directly or indirectly, in or into, or by use of the mails, or by any means or instrumentality (including, without limitation, by means of telephone, facsimile, telex, internet or other forms of electronic communication) of interstate or foreign commerce of, or any facilities of a securities exchange of, any Restricted Jurisdiction, and the Offer will not be capable of acceptance by any such use, means, instrumentality or facility or from within any Restricted Jurisdiction. Accordingly, unless otherwise determined by Bidco or required by the City Code and permitted by applicable law and regulation, copies of this announcement and any other related document are not being, and must not be, directly or indirectly, mailed or otherwise distributed or sent in or into any Restricted Jurisdiction and persons receiving such documents (including custodians, nominees and trustees) must not distribute or send them in, into or from such*

jurisdictions as doing so may make invalid any purported acceptance of the Offer by persons in any such jurisdiction.

The availability of the Offer to persons not resident in the UK may be affected by the laws of the relevant jurisdiction. Persons who are subject to the laws of any jurisdiction other than the UK should obtain professional advice and observe any applicable requirements.

### **Forward-looking statements**

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Bidco and Merchant and certain plans and objectives of the boards of directors of Bidco and Merchant. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “believe”, “will”, “may”, “should”, “would”, “could” or other words of similar meaning. These statements are based on assumptions and assessments made by the boards of directors of Bidco and Merchant in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe appropriate. By their nature, forward-looking statements involve risk and uncertainty, and the factors described in the context of such forward-looking statements in this announcement could cause actual results and developments to differ materially from those expressed in or implied by such forward-looking statements.

Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this announcement. Neither Bidco or Merchant nor their respective boards of directors assume any obligation to update or correct the information contained in this announcement, whether as a result of new information, future events or otherwise, except to the extent legally required.

The statements contained in this announcement are made as at the date of this announcement, unless some other time is specified in relation to them, and service of this announcement shall not give rise to any implication that there has been no change in the facts set out in this announcement since such date. Nothing contained in this announcement shall be deemed to be a forecast, projection or estimate of the future financial performance of Bidco or Merchant or any member of the Sanlam Group or Merchant Group except where expressly stated.

### **Dealing disclosure requirements**

Under Rule 8.3(a) of the City Code, any person who is interested in 1.00 per cent. or more of any class of relevant securities of an offeree company or of any paper offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any paper offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the tenth business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the tenth business day following the announcement in which any paper offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a paper offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the City Code, any person who is, or becomes, interested in 1.00 per cent. or more of any class of relevant securities of the offeree company or of any paper offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any paper offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any paper offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

*Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. If you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure, you should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129.*

## Appendix I

### Part A

#### Conditions to the Offer

The Offer will be subject to the following conditions and will comply with the applicable rules and regulations of the City Code:

- a. valid acceptances being received (and not, where permitted, withdrawn) by not later than 1.00 p.m. (London time) on 3 January 2012 (or such later time(s) and/or date(s) as Bidco may, with the consent of the Panel or in accordance with the City Code, decide) in respect of not less than 90.00 per cent. (or such lower percentage as Bidco may decide) in nominal value of the Merchant Shares to which the Offer relates, and in respect of not less than 90.00 per cent. (or such lower percentage as Bidco may decide) of the voting rights carried by the Merchant Shares to which the Offer relates, provided that this condition will not be satisfied unless Bidco and/or any member of the Sanlam Group shall have acquired, or agreed to acquire, whether pursuant to the Offer or otherwise, Merchant Shares carrying in aggregate, more than 50.00 per cent. of the voting rights then normally exercisable at general meetings of Merchant. For the purposes of this condition:
  - (i) Merchant Shares which have been unconditionally allotted shall be deemed to carry the voting rights they will carry upon issue; and
  - (ii) the expression "Merchant Shares to which the Offer relates" means (a) ordinary shares of 1p (one penny) each in Merchant unconditionally allotted or issued on or before the date on which the Offer is made and (b) ordinary shares of 1p (one penny) each in Merchant unconditionally allotted or issued after that date but before the time at which the Offer ceases to be open for acceptance (or such earlier date, not being earlier than the date in which the Offer becomes unconditional as to acceptances or, if later, the first closing date of the Offer, as Bidco may, with the consent of the Panel or in accordance with the City Code decide) but excluding any Merchant Shares which, on the date the Offer is made, are held or (otherwise than under such a contract as is described in section 975(2) of the Companies Act) contracted to be acquired by Bidco and/or its Associates (within the meaning of section 988 of the Companies Act);
- b. the passing by the Independent Shareholders at a general meeting of Merchant (or at any adjournment thereof) of the Ordinary Resolution to approve the arrangements between Bidco, the Management Team, the EBT, Sanlam UK and Merchant;
- c. the passing at a general meeting of Merchant (or at any adjournment thereof) of the special resolution to be set out in the notice of General Meeting to amend the Articles of Association of Merchant;
- d. no government or governmental, quasi governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, tribunal trade agency, association, institution or any statutory person whatsoever in any jurisdiction in which Merchant carries on business ("Relevant Jurisdiction") (each a "Third Party") having, without the consent of Bidco, decided to take, institute, implement or threaten in writing (and in each case not having withdrawn the same), any action, proceeding, suit, investigation, enquiry or reference, or having required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision or order (and in each case not having withdrawn the same) which in each case, would or might reasonably be likely to:
  - (i) make the Offer, its implementation or the acquisition or proposed acquisition of any shares or other securities in, or control of, Merchant by Bidco void, illegal and/or unenforceable under the laws of any Relevant Jurisdiction, or otherwise directly or indirectly prohibit, or materially restrain, restrict or delay the implementation of, or impose additional conditions or obligations which are materially adverse with respect to, or otherwise materially challenge or require material amendment of the Offer or the acquisition of any such shares or securities in Merchant by Bidco;
  - (ii) require, prevent or materially delay the divestiture or materially alter the terms envisaged for such divestiture by Bidco or by any member of the Wider Merchant Group of all or a material part of their respective businesses, assets or properties or impose any limitation on the ability of any of them to conduct their businesses (or any material part thereof) or to own any of their assets or properties (or any material part thereof) to an extent which in each case is material in the context of the Wider Merchant Group taken as a whole or Bidco (as the case may be);

- (iii) impose any material limitation on, or result in a material delay in, the ability of Bidco directly or indirectly to acquire or hold or to exercise effectively all or any rights of ownership in respect of shares or loans, or other securities convertible into shares in Merchant or on the ability of any member of the Wider Merchant Group or Bidco directly or indirectly to hold or exercise effectively any rights of ownership of shares or other securities convertible into shares in any member of the Wider Merchant Group, or to exercise management control over any member of the Wider Merchant Group;
- (iv) require Bidco or any member of the Wider Merchant Group to acquire or offer to acquire any shares or other securities in any member of the Wider Merchant Group or any material asset owned by any third party (other than in the implementation of the Offer and pursuant to chapter 3 of Part 28 of the 2006 Act) which is material in the context of the Wider Merchant Group taken as a whole;
- (v) result in any member of the Wider Merchant Group ceasing to be able to carry on business to the extent conducted at the date of this document under any name under which it presently carries on business to an extent which is material in the context of the Wider Merchant Group taken as a whole;
- (vi) impose any limitation that is material in the context of the Wider Merchant Group taken as a whole on the ability of Bidco or any member of the Wider Merchant Group to integrate or coordinate all or any part of its business with all or any part of the business of Bidco and/or the Wider Merchant Group; or
- (vii) otherwise affect the business, assets, profits or the long term prospects (where such long term prospects do not relate to a change in general economic conditions) of any member of the Wider Merchant Group or Bidco in a manner which is adverse to and material in the context of the Wider Merchant Group taken as a whole,

and all applicable waiting and other time periods during which any such Third Party could decide to take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any Relevant Jurisdiction in respect of the Offer or the acquisition or proposed acquisition of any Merchant Shares having expired, lapsed, or been terminated;

- e. the FSA having formally (and unconditionally or on such terms satisfactory to Bidco (acting reasonably)) approved Bidco, and any relevant affiliate of Bidco which would be deemed to be acquiring control (as such term is defined in FSMA), as a controller of all and any relevant entities within the Merchant Group which are authorised in the UK by the FSA under FSMA (pursuant to the provisions of Part XII of FSMA);
- f. all necessary filings having been made in connection with the Offer and all statutory or regulatory obligations in any relevant jurisdiction having been complied with in connection with the Offer or the acquisition by any member of the Sanlam Group of any shares or other securities in, or control of, Merchant and all necessary waiting periods under any applicable legislation or regulations of any relevant jurisdiction having expired, lapsed or been terminated (as appropriate) and all authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals necessary or in respect of the Offer and the proposed acquisition of any shares or other securities in, or control of, Merchant by any member of the Sanlam Group having been obtained in terms and in a form satisfactory to Bidco (acting reasonably) from all relevant authorities or persons with whom any member of the Wider Merchant Group has entered into contractual arrangements and all such authorisations, orders, recognitions, grants, consents, licences, confirmations, clearances, permissions and approvals, together with all authorisations, orders, recognitions, grants, licences, confirmations, clearances, permissions and approvals necessary to carry on the business of any member of the Wider Merchant Group, remaining in full force and effect and all filings necessary for such purpose have been made and there being no notice of any intention to revoke or not to renew the same at the time at which the Offer becomes otherwise unconditional (where such revocation or failure to renew would be material in the context of the Wider Merchant Group, taken as a whole) and all necessary statutory or regulatory obligations in any relevant jurisdiction having been complied with in all material respects;
- g. save as Disclosed, there being no provisions of any arrangement, agreement, licence, permit or other instrument to which any member of the Wider Merchant Group is a party or by or to which any such member or any of its assets may be bound, entitled or subject and which, in consequence of the Offer, or the proposed acquisition of any shares or other securities in Merchant or because of a change in the control or management of Merchant or otherwise, could or might reasonably be expected to result, to an extent in each case, which would be material in the context of the Wider Merchant Group taken as a whole, in:

- (i) any monies borrowed by, or any other indebtedness (actual or contingent) of or grant available to, any such member of the Wider Merchant Group, being or becoming repayable or capable of being declared repayable immediately or earlier than their or its stated maturity date or repayment date or the ability of such member of the Wider Merchant Group to borrow monies or incur any indebtedness being withdrawn or inhibited;
- (ii) the creation of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any such member of the Wider Merchant Group or any such security (whenever arising or having arisen) becoming enforceable;
- (iii) any such arrangement, agreement, licence, permit or instrument or the rights, liabilities, obligations or interests thereunder of any such member of the Wider Merchant Group being terminated or adversely modified or any action being taken or any obligation or liability arising thereunder that is material in the context of the Offer;
- (iv) any assets or interests of any such member of the Wider Merchant Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged;
- (v) the rights, liabilities, obligations, interests or business of any such member of the Wider Merchant Group in or with any firm or body or, in the case of a business any arrangements relating to such interest or business, being terminated or adversely modified or affected;
- (vi) any such member ceasing to be able to carry on business under any name under which it presently does so;
- (vii) the financial or trading position or prospects of any member of the Wider Merchant Group being prejudiced or adversely affected to an extent which is material in the context of the Offer; or
- (viii) the creation of any material liability, actual or contingent, by any such member otherwise than in the ordinary course of business,

and no event having occurred which, under any provision of any agreement, arrangement, licence, permit, or other instrument to which any member of the Wider Merchant Group is a party or by or to which any such member or any of its assets is bound, entitled or subject, would result in any of the events or circumstances as are referred to in sub-paragraphs (i) to (viii) of this paragraph (g) in any case to an extent which is or would be material in the context of the Wider Merchant Group as a whole;

- h. save as Disclosed, no member of the Wider Merchant Group having, since 31 March 2011:
  - (i) (without prejudice to paragraph (d) of this Part A of Appendix 1) issued or agreed to issue or authorised or proposed the issue or grant of additional shares of any class, or securities convertible into, or rights, warrants or options to subscribe for or acquire any such shares or convertible securities (save for options granted, and for any Merchant Shares allotted upon exercise of options granted, prior to the date hereof under the Merchant Share Option Schemes and any other option agreements and save as between Merchant and its wholly owned subsidiaries);
  - (ii) other than to a wholly-owned member of the Merchant Group, recommended, declared, paid, made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution whether payable in cash or otherwise;
  - (iii) save as between Merchant and its wholly owned subsidiaries, issued, authorised or proposed the issue of any debentures, save in the ordinary course of business, or incurred or increased any indebtedness or become subject to any contingent liability which is material in the context of the Wider Merchant Group as a whole;
  - (iv) entered into or offered to enter into (which remains open for acceptance) any contract, any reconstruction or amalgamation, any transaction or arrangement otherwise than in the ordinary course of business which in any such case is material in the context of the Wider Merchant Group as a whole;
  - (v) entered into or materially varied or made an offer (which remains open for acceptance) to enter into or materially vary, the terms of any service agreement with any director, or (other than in the ordinary course of business) with any senior executive of the Merchant Group;
  - (vi) entered into or offered to enter into (which offer remains open for acceptance) any agreement which consents to the restriction of the scope of the business of any member of the Wider Merchant Group which is material in the context of the Wider Merchant Group or the Sanlam Group as a whole;

- (vii) waived or compromised any material claim otherwise than in the ordinary course of business which is material in the context of the Wider Merchant Group taken as a whole;
  - (viii) entered into or varied or authorised, or offered (which offer remains open for acceptance) to enter into or vary any contract, transaction or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, onerous or unusual nature or magnitude or which is restrictive to the businesses of any member of the Wider Merchant Group or which involves an obligation of such a nature or magnitude and which is material in the context of the Wider Merchant Group as a whole;
  - (ix) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced, save in respect of the matters mentioned in sub-paragraph (i) above, or made any other material change to any part of its share capital;
  - (x) (other than in respect of a member of the Wider Merchant Group which is dormant and was solvent at the relevant time) taken any corporate action or (to an extent which is material in the context of the Merchant Group taken as a whole) had any legal proceedings started or threatened against it for its winding-up, dissolution or reorganisation or for the appointment of a receiver, administrative receiver, administrator, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or had any such person appointed;
  - (xi) save for transactions between wholly-owned members of the Merchant Group, merged with any body corporate or acquired or disposed of or demerged or transferred, mortgaged or charged or created any security interest over any material assets or any right, title or interest in any material asset (including shares in subsidiaries, associates and trade investments) or authorised or proposed or announced any intention to propose any merger, demerger, acquisition or disposal, transfer, mortgage or charge or security interest or change in its loan capital, as aforesaid (other than in the ordinary course of business) which in any such case is material in the context of the Offer;
  - (xii) entered into an agreement, contract, arrangement or commitment or passed any resolution or made any offer (which remains open for acceptance) with respect to any of the transactions or events referred to in this paragraph (h) which in any such case is material in the context of the Wider Merchant Group as a whole;
- i. since 31 March 2011 and save as Disclosed:
- (i) there having been no adverse change in the business, assets, financial or trading position or profits of Merchant or any other member of the Wider Merchant Group in each case which is material in the context of the Wider Merchant Group taken as a whole;
  - (ii) there having been no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Wider Merchant Group is or could reasonably be expected to become a party (whether as plaintiff or defendant or otherwise), no such proceedings having been threatened in writing against any member of the Wider Merchant Group and no investigation by any relevant authority against or in respect of any member of the Wider Merchant Group having been instituted, threatened or announced by or against or remaining outstanding in respect of any member of the Wider Merchant Group which in any such case might adversely affect any member of the Wider Merchant Group in any way which is material in the context of the Wider Merchant Group taken as a whole;
  - (iii) no contingent or other liability of any member of the Wider Merchant Group having arisen which would be reasonably likely materially and adversely to affect the Wider Merchant Group taken as a whole; or
  - (iv) no steps having been taken which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Merchant Group which is necessary for the proper carrying on of its business and where such withdrawal, cancellation, termination or modification would be material in the context of the Wider Merchant Group, taken as a whole;
- j. save as Disclosed, Bidco not having discovered:
- (i) that any financial, business or other information concerning the Wider Merchant Group that is material in the context of the Offer as contained in the information publicly disclosed at any time by any member of the Wider Merchant Group, is materially misleading, contains a material misrepresentation of fact or omits to state a fact necessary to make the information contained

therein not materially misleading which has not been corrected and which is material in the context of the Wider Merchant Group taken as a whole;

- (ii) that any member of the Wider Merchant Group is subject to any liability (contingent or otherwise) and which is material in the context of the Wider Merchant Group taken as a whole;
- (iii) that any past or present member of the Wider Merchant Group has not complied with any and all applicable laws and regulations of any relevant jurisdiction relating to an emission, disposal, discharge, deposit, spillage or leak of waste or hazardous or harmful substances on or about or from any land or property of any description or other asset now or previously owned, occupied or made use of by any past or present member of the Wider Merchant Group which non-compliance would be reasonably likely to give rise to any liability (whether actual or contingent) on the part of any member of the Wider Merchant Group which would be material in the context of the Wider Merchant Group taken as a whole; and
- (iv) that there is or is likely to be, for that or any other reason whatsoever, any liability (whether actual or contingent) of any past or present member of the Wider Merchant Group to or requirement to make good, repair, reinstate or clean-up any property now or previously owned, occupied or made use of by any past or present member of the Wider Merchant Group which is material in the context of the Wider Merchant Group taken as a whole.

## Part B

### Further Terms of the Offer

- a. The Offer will lapse unless the conditions set out above (other than condition (a)) are fulfilled or (if capable of waiver) waived or, where appropriate, have been determined by Bidco in its reasonable opinion to be or to remain satisfied no later than twenty-one days after (i) the first closing date of the Offer (ii) the date on which the Offer becomes or is declared unconditional as to acceptances, whichever is the later, or such later date as the Panel may agree. Bidco shall be under no obligation to waive (if capable of waiver), to determine to be or remain satisfied, or to treat as fulfilled any of the conditions (b) to (j) inclusive by any date earlier than the latest date specified above for fulfilment of that condition.
- b. Bidco reserves the right to waive, in whole or in part, all or any of conditions (b) to (j) inclusive (other than (e)) of Part A of this Appendix 1.
- c. Bidco shall be under no obligation to waive or treat as satisfied any of conditions (b) to (j) inclusive (other than (e)) of Part A of this Appendix 1 by a date earlier than the latest date specified above for the satisfaction thereof notwithstanding that the other conditions of the Offer may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any such conditions may not be capable of fulfilment. If Bidco is required by the Panel to make an offer for Merchant Shares under the provisions of Rule 9 of the City Code, Bidco may make such alterations to the conditions as are necessary to comply with the provisions of that Rule.
- d. Under Rule 13.5 of the City Code, Bidco may not invoke a condition to the Offer so as to cause the Offer not to proceed, to lapse, or to be withdrawn unless the circumstances which give rise to the right to invoke the condition are of material significance to Bidco in the context of the Offer. The conditions contained in paragraph (a) of Part A of this Appendix 1 and at paragraph (e) of this Part B are not subject to this provision of the City Code.
- e. The Offer will lapse (unless the Panel otherwise consents) if the Offer or any matter arising from or relating to the Offer is referred to the UK Competition Commission before 3.00 p.m. on the first closing date of the Offer or the date on which the Offer becomes or is declared unconditional as to acceptances, whichever is the later.
- f. The availability of the Offer to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.
- g. If the Offer lapses, the Offer will cease to be capable of further acceptances and accepting Merchant Shareholders and Bidco shall cease to be bound by acceptances submitted at or before the time when the Offer so lapses.
- h. Bidco may, with the agreement of the Independent Directors and the Panel, elect to implement the acquisition by way of a court-sanctioned scheme of arrangement under Part 26 of the Companies Act 2006. Any such scheme of arrangement will be implemented on the same terms (subject to appropriate amendments), so far as applicable, as those which would apply to the Offer.
- i. The Offer Shares will be transferred to Bidco fully paid and free from all liens, charges, equitable interests, encumbrances, rights of pre-emption and other third party rights or interests and together with all rights attaching to such Offer Shares, including without limitation, the right to receive all dividends and other distributions (if any) announced, declared, made or paid after the date of this announcement.
- j. This Offer will be governed by English Law and will be subject to the jurisdiction of the English courts and the conditions set out above and those terms which will be set out in the Offer Document and in the Form of Acceptance.

## Appendix II

### Sources of information and bases of calculation

The value of Merchant as implied by the Offer Price stated in paragraph 2 of this announcement is based on the issued ordinary share capital as at 30 August 2011 (the last Business Day before commencement of the Offer Period), adjusted for the dilutive effect of the in-the-money options (issued under the Merchant Share Option Schemes and other option agreements), being:

- an issued ordinary share capital of 51,575,856 Merchant Shares as per the confirmation by Merchant pursuant to Rule 2.10 of the City Code; and
- 55,668,633 Relevant Merchant Shares being the maximum number of Relevant Merchant Shares that can be in issue following the allotment of 4,092,777 in-the-money options.

Further sources of information regarding data reported in this announcement are as follows:

- the Closing Price per Merchant Share of 11.5p (eleven point five pence) on 30 August 2011 (the last Business Day before commencement of the Offer Period) is the closing middle market price derived from Bloomberg;
- the six month average Closing Price of 16.4p (sixteen point four pence) (being the average Closing Price for the six month period ended on 30 August 2011) is derived from Bloomberg and taken as the average daily closing price for the period; and
- unless otherwise stated, the financial information relating to Merchant is extracted from the audited consolidated financial statements of Merchant for the financial year ended 31 March 2011.

## Appendix III

### Irrevocable Undertakings and Letters of Intent

The following holders or controllers of Merchant Shares in issue as at the date of this announcement have given irrevocable undertakings to accept the Offer (and, in respect of the Independent Directors to instruct the registered holder to accept the Offer in respect of the Merchant Shares which they beneficially own or are owned by certain of their Connected Persons) and to approve the Ordinary Resolution and any other resolutions to be proposed at the General Meeting:

#### Part A – Independent Directors

| <i>Shareholder</i>                           | <i>Number of<br/>Merchant<br/>Shares</i> | <i>% of<br/>Merchant<br/>Shares</i> |
|--|--|-------------------------------------|
| John Green (including his Connected Persons) | 225,431                                  | 0.44%                               |
| Charles Price                                | 416,009                                  | 0.81%                               |
|  | <hr/>                                    | <hr/>                               |
|  | 641,440                                  | 1.24%                               |

The undertakings given by the Independent Directors listed in this Part A do not remain binding in the event that within seven days of posting the Offer Document a third party has announced a competing offer at a price in excess of 30p (thirty pence) per Merchant Share in cash, or with an equivalent cash alternative, which has been unanimously recommended by the directors of Merchant or the Independent Directors of Merchant, as the case may be, at that time.

#### Part B – Other Merchant Shareholders

| <i>Shareholder</i>                 | <i>Number of<br/>Merchant<br/>Shares</i> | <i>% of<br/>Merchant<br/>Shares</i> |
|------------------------------------|--|-------------------------------------|
| Henderson Global Investors Limited | 4,770,000                                | 9.25%                               |
| IDMSA Brokerage Limited            | 3,000,000                                | 5.82%                               |
| Roy Ruffler                        | 2,166,591                                | 4.20%                               |
| Anthony Fabrizi                    | 1,918,001                                | 3.72%                               |
| Marylebone Property Holdings       | 1,152,857                                | 2.24%                               |
| City and Continental LLP           | 814,239                                  | 1.58%                               |
| David Barton                       | 666,019                                  | 1.29%                               |
| Terry Tyrell                       | 553,184                                  | 1.07%                               |
| Simon Rogers                       | 294,285                                  | 0.57%                               |
|                                    | <hr/>                                    | <hr/>                               |
|                                    | 15,335,176                               | 29.73%                              |

The undertakings given by the relevant Merchant Shareholders listed in this Part B do not remain binding in the event that within seven days of posting the Offer Document (or twenty-one days in respect of Henderson Global Investors Limited) a third party has announced a competing offer at a premium of at least 10.00 per cent. to the Offer Price in cash, or with an equivalent cash alternative, which (other than in respect of the undertaking given by Henderson Global Investors Limited) has been unanimously recommended by the directors of Merchant or the Independent Directors of Merchant, as the case may be, at that time.

## Appendix IV

### Management Arrangements

#### 1. Acquisition Agreement

- a. Bidco has entered into the Acquisition Agreement with the Management Team (and certain of their Connected Persons) and the EBT who, on Completion, will exchange a majority of Management Shares that they hold (including on exercise of subsisting options), representing in aggregate 22.27 per cent. of the fully diluted share capital of Merchant, in consideration for the issue to them of 12,395,114 B ordinary shares in Bidco ("B Shares"), representing in aggregate 22.27 per cent. of the issued share capital of Bidco.
- b. Certain members of the Management Team (and certain of their Connected Persons), being John East, Timothy Wall, Patrick Claridge, Chris Coleman, Simon Clements, Lindsay Mair, Chris Theis, Wayne Ellis, Graeme Smith, Paul Chapman and Andrew Lewis will also receive a cash payment of £1,476,473.68 (one million four hundred and seventy six thousand four hundred and seventy three pounds and sixty eight pence) in aggregate for the sale of 6,711,244 Management Shares, representing in aggregate 12.06 per cent. of the fully diluted share capital of Merchant, to Bidco. The cash price paid for each of these Management Shares will be the Offer Price.
- c. The Manager Subscribers (and certain of their Connected Persons) and the EBT will subscribe in aggregate for an additional 1,522,587 B ordinary shares in Bidco at a subscription price of 22p (twenty-two pence) per B ordinary share in, representing 2.73 per cent. of the issued share capital of Bidco.
- d. In aggregate the Management Team (and certain of their Connected Persons) and the EBT will own 25.00 per cent. of the issued share capital of Bidco.
- e. The Acquisition Agreement is conditional upon the Offer becoming or being declared unconditional in all respects. This condition may be waived by Bidco if, in order to declare the Offer unconditional as to acceptances, the purchase of Ordinary Shares pursuant to the Acquisition Agreement is required to be counted towards fulfilling any condition of the Offer.

#### 2. Shareholders' Agreement

- a. Sanlam UK, Bidco, the EBT and the Management Team (and certain of their Connected Persons), other than Andrew Lewis and Andy Pratt, have entered into the Shareholders' Agreement to regulate the relationship between the shareholders in Bidco.
- b. The ordinary share capital of Bidco is divided into two classes of ordinary share, A ordinary shares ("A Shares"), to be held initially by Sanlam UK (the "A Shareholder"), and B ordinary shares ("B Shares"), to be held initially by the Management Team (and certain of their Connected Persons), other than Andrew Lewis and Andy Pratt, and the EBT (the "B Shareholders").
- c. The A Shares and B Shares rank *pari passu*, save as detailed below, and entitle the holders to attend and vote as general meetings and to receive dividends and other distributions.
- d. Under the Shareholders' Agreement, the A Shareholder is entitled to appoint and replace five directors to the Board of Bidco and the B Shareholders, as a class, are entitled to appoint and replace three directors to the Board of Bidco. In the event that the B Shareholders propose to appoint anyone to the Board of Bidco who is not an original B Shareholder, the consent of the A Shareholder or the Board of Bidco to such appointment will be required, such consent not to be unreasonably withheld or delayed.
- e. The Shareholders' Agreement provides for a quorum at both board meetings (which requires a director appointed by the A Shareholder and a director appointed by the B Shareholder to be present) and general meetings of Bidco (which requires the A Shareholder and a B Shareholder and/or their nominees to be present), failing which the relevant meeting will be adjourned to a later date. There are provisions dealing with the lack of a proper quorum at any later meeting, to avoid deadlock.
- f. The Shareholders' Agreement contains a prohibition on transfer of B Shares during the first three years following Completion, unless the Board of Bidco resolves, acting reasonably, and Bidco notifies the relevant B Shareholder in writing that the transfer is permitted strictly in order to alleviate the severe personal hardship of the B Shareholder concerned. This restriction will not apply to transfers of B Shares from trustees of an employee benefit trust to beneficiaries or to certain permitted transferees or in instances where the relevant B Shareholder has ceased to be employed by the Merchant Group.

- g. After the first three year period, if any B Shareholder wishes to dispose of their B Shares, he or she will be required, as determined by the Board of Bidco, to offer those B Shares for sale to either (i) the existing shareholders of Bidco *pro rata* to their existing holdings of shares; (ii) another employee(s) of any Merchant Group company; (iii) the EBT; or (iv) Bidco subject to a buy back programme. The price at which any B Shares will be sold under this arrangement will be the fair value (calculated in the manner set out in the Shareholders' Agreement) ("Fair Value"). This provision will not apply to transfers to certain permitted transferees.
- h. If a B Shareholder ceases to be employed within the Merchant Group in circumstances where he is a considered a "bad leaver" in accordance with the terms of the Shareholders' Agreement ("Bad Leaver"); such Bad Leaver will be required to offer his or her B Shares for sale at the lower of the Offer Price and the Fair Value to (as may be determined by the Board of Bidco) either (i) the existing shareholders of Bidco *pro rata* to their existing holdings of shares; (ii) another employee(s) of any Merchant Group company; (iii) the EBT; or (iv) Bidco subject to a buy back programme.
- i. If a B Shareholder ceases to be employed within the Merchant Group following the first anniversary of Completion, in circumstances where he is considered to be a "good leaver" in accordance with the terms of the Shareholders Agreement ("Good Leaver"); such Good Leaver will be required to transfer his or her B Shares at the Fair Value to (as may be determined by the Board of Bidco) either (i) the existing shareholders of Bidco *pro rata* to their existing holdings of shares; (ii) another employee(s) of any Merchant Group company; (iii) the EBT; or (iv) Bidco subject to a buy back programme.
- j. If a B Shareholder ceases to be employed within the Merchant Group within the first twelve months following Completion, his or her B Shares will be deemed automatically to have been offered for sale at the lower of the Offer Price and the Fair Value to (as may be determined by the Board of Bidco) either (i) the existing shareholders of Bidco *pro rata* to their existing holdings of shares; (ii) another employee(s) of any Merchant Group company; (iii) the EBT; or (iv) Bidco subject to a buy back programme.
- k. The Shareholders' Agreement contains rights of pre-emption on further issues of shares, to all shareholders of Bidco *pro rata* to their holdings. To the extent that any shares are not taken up by shareholders, the remaining shares can be applied in satisfying excess demand.
- l. In the event that the Board of Bidco resolves to raise finance through a new issue of equity and insufficient holders of B Shares take up their pre-emptive rights, such that upon the issue of the new shares, the holders of the B Shares, as a class, would hold less than 10 per cent. of the thereby enlarged equity voting share capital, a further period of time, fourteen Business Days, will be provided to the holders of the B Shares to provide them with the opportunity to take up all or part of the pre-emptive issue.
- m. The Shareholders' Agreement provides that on a change of control, namely the transfer to a third party of equity voting shares representing 75.00 per cent. or more of Bidco, the B Shareholders can be required to sell their shares to the third party on the same terms as the A Shareholder.
- n. The Shareholders' Agreement states the intention of the parties to establish a long-term incentive plan for employees of the Merchant Group, which may include the Management Team, but no details of any such plan have yet been agreed.
- o. The Shareholders' Agreement provides that, when Bidco has distributable profits dividends may be paid to shareholders *pro rata* to their shareholdings, but having regard, amongst other matters, to working capital and regulatory capital requirements.
- p. There are certain matters in relation to which the consent of the holders of the B Shares by a 75.00 per cent. affirmative vote in class meeting is required. These rights of veto relate to the winding up of Bidco or Merchant, variations to the rights attaching to any shares or changes to the articles of association of Bidco.
- q. The Shareholders' Agreement is conditional upon the Offer becoming or being declared unconditional in all respects.

### **3. Service Agreements**

It is intended to amend the terms of the service agreements for certain members of management, being Patrick Claridge, Simon Clements, Nigel Gurney and Chris Coleman, in each case to provide for a twelve month guaranteed period of employment following implementation of the Offer. During that time, Patrick Claridge, Simon Clements, Nigel Gurney and Chris Coleman can still exercise the current six months' notice period, but Merchant can only do so after six months of the initial twelve month period. In the case of Patrick Claridge and Graeme Smith, their service agreements will also be amended to include post termination restrictive covenants.

## Appendix V

### Definitions

The following definitions apply throughout this announcement, unless the context otherwise requires:

|                         |   |
|-------------------------|---|
| “Acquisition Agreement” | the acquisition and subscription agreement dated 28 October 2011 whereby Bidco has conditionally agreed to acquire the Management Shares held by certain members of the Management Team (and certain of their Connected Persons) and the EBT and the Manager Subscribers (and certain of their Connected Persons) and the EBT to subscribe for shares in Bidco; |
| “AIM”                   | the AIM market operated by the London Stock Exchange;   |
| “AIM Rules”             | the AIM Rules for Companies published by the London Stock Exchange;   |
| “Associates”            | associates within the meaning of section 988 of the Companies Act;  |
| “Bidco”                 | Sanlam Private Investment Holdings UK Limited;  |
| “Board of Bidco”        | the board of directors of Bidco;  |
| “Board of Merchant”     | the board of directors of Merchant;   |
| “Business Day”          | a day (other than a Saturday, a Sunday or public holiday) on which banks are generally open for business in the City of London for the transaction of all normal sterling banking business;   |
| “Canada”                | Canada, its provinces and territories and all areas subject to its jurisdiction and any political subdivision thereof;  |
| “Capita Registrars”     | Capita Registrars Limited;  |
| “City Code”             | the City Code on Takeovers and Mergers of the United Kingdom;   |
| “Closing Price”         | the closing middle market quotation of a Merchant Share as derived from Bloomberg;  |
| “Companies Act”         | the Companies Act 2006 (as amended);  |
| “Completion”            | completion of the Acquisition Agreement and the Shareholders' Agreement;  |
| “Connected Persons”     | close relatives, family members, self invested personal pensions and discretionary fund managers of the Management Team;  |
| “Deferred Shares”       | the deferred shares of 9p (nine pence) each in the capital of Merchant of which 31,147,270 are in issue at the date of this announcement;   |
| “Disclosed”             | fairly disclosed (i) in the Financial Statements; (ii) by way of Public Announcement; or (iii) in writing to Bidco or its financial or legal advisers by or on behalf of Merchant prior to the date of this announcement;   |
| “EBT”                   | the employee benefit trust of Merchant;   |
| “Financial Statements”  | the audited annual consolidated financial statements of Merchant for the financial year ended 31 March 2011;  |
| “Form of Acceptance”    | the form of acceptance relating to the Offer which will be distributed with the Offer Document;   |
| “FSA”                   | the Financial Services Authority;   |
| “FSMA”                  | the Financial Services and Markets Act 2000 (as amended);   |
| “General Meeting”       | the general meeting of Merchant Shareholders (or any adjournment thereof) to be convened pursuant to Rule 16 of the City Code to consider and, if thought fit, pass the Ordinary Resolution and such other resolutions referred to in this announcement, notice of which will be set out in the Merchant circular;  |

|                                 |   |
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| “Grant Thornton”                | Grant Thornton UK LLP;  |
| “Independent Directors”         | the independent directors of Merchant, being John Green and Charles Price;  |
| “Independent Shareholders”      | the Merchant Shareholders excluding the Management Team (and certain of their Connected Persons), the EBT and Principal Nominees Limited;   |
| “Japan”                         | Japan, its cities, prefectures, territories and possessions;  |
| “Lincoln International”         | Lincoln International LLP, financial adviser to Bidco;  |
| “London Stock Exchange”         | London Stock Exchange plc, together with any successors thereto;  |
| “Management Arrangements”       | the Acquisition Agreement, the Shareholders' Agreement and the Service Agreements;  |
| “Management Shares”             | the 19,106,358 Relevant Merchant Shares held or intended to be held by the Management Team (and certain of their Connected Persons) and the EBT on or before the Unconditional Date;  |
| “Manager Subscribers”           | certain members of the Management Team who do not hold any Relevant Merchant Shares at the date of this document being John Amor, Lindsey Hamilton, Nigel Gurney and Colin Henderson and certain members of the Management Team who do hold Relevant Merchant Shares being Patrick Claridge, Simon Clements, and Lindsay Mair;  |
| “Management Team”               | certain employees of Merchant and its subsidiaries, being John East, Timothy Wall, Patrick Claridge, David Worlidge, Simon Clements, Chris Coleman, Wayne Ellis, Graeme Smith, Paul Chapman, Lindsay Mair, Chris Theis, John Amor, Lindsey Hamilton, Nigel Gurney, Colin Henderson, Andrew Lewis and Andy Pratt.  |
| “Merchant”                      | Merchant Securities Group plc;  |
| “Merchant Group”                | Merchant and its subsidiaries;  |
| “Merchant Shares”               | the existing unconditionally allotted or issued and fully paid ordinary shares of 1p (one penny) each in the capital of Merchant and any such shares which are unconditionally allotted or issued whilst the Offer remains open for acceptance (or by such earlier time and/or date as Bidco may, subject to the City Code and/or with the consent of the Panel, determine, but not being earlier than the date on which the Offer becomes or is declared unconditional as to acceptances); |
| “Merchant Shareholder”          | a holder of Merchant Shares;  |
| “Merchant Share Option Schemes” | the Merchant Securities plc Enterprise Management Incentive Share Option Scheme and the Merchant Securities plc 2009 Executive Share Option Scheme;   |
| “Offer”                         | the proposed recommended offer at the Offer Price to be made by Bidco to acquire all of the Offer Shares on the terms and conditions to be set out in the Offer Document and the Form of Acceptance and where the context permits any subsequent revision, variation, extension or renewal thereof;   |
| “Offer Document”                | the document to be published containing the Offer;  |
| “Offer Period”                  | the period commencing on 31 August and ending on the date when the Offer becomes unconditional as to acceptances or has lapsed or is withdrawn;   |
| “Offer Price”                   | 22p (twenty-two pence) per Offer Share;   |
| “Offer Shares”                  | all the Merchant Shares but excluding, the Merchant Shares held by Principal Nominees Limited (a nominee of Bidco), Management Shares contracted to be acquired by Bidco under the terms of the Acquisition Agreement and any treasury shares except to the extent these cease to be held as treasury shares before the Offer closes (or such earlier date as Bidco may, subject to the City Code, decide);   |

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| “Opening Position Disclosure”    | an opening position disclosure as contemplated in Rule 8.3(a) of the City Code;  |
| “Ordinary Resolution”            | the ordinary resolution to be proposed to the Independent Shareholders at the General Meeting to approve on a poll the terms of the Management Arrangements;   |
| “Panel”                          | The Panel on Takeovers and Mergers of the United Kingdom;  |
| “Public Announcement”            | any public announcement by Merchant to any regulatory information service;   |
| “Regulatory Information Service” | any of the services set out in Appendix 3 to the Listing Rules (being the rules and regulations made by the FSA in its capacity as the UK Listing Authority under FSMA);   |
| “Relevant Merchant Shares”       | Merchant Shares and/or any in the money securities convertible or exchangeable into Merchant Shares;   |
| “Restricted Jurisdiction”        | Canada, South Africa, USA, Japan and any other jurisdiction where extension or acceptance of the Offer would violate the law of that jurisdiction;   |
| “Sanlam”                         | Sanlam Limited, the ultimate parent company of Bidco;  |
| “Sanlam Group”                   | Sanlam and its subsidiaries (including Sanlam UK and Bidco);   |
| “Sanlam Private Investments”     | Sanlam Private Investments, a business unit of Sanlam;   |
| “Sanlam UK”                      | Sanlam UK Limited, an indirect subsidiary of Sanlam;   |
| “Service Agreements”             | the amended service agreements for certain members of the Management Team as further described in paragraph 3 of Appendix IV;  |
| “Shareholders' Agreement”        | the shareholders' agreement dated 28 October 2011 whereby Sanlam UK, the EBT and the Management Team (and certain of their Connected Persons), other than Andrew Lewis and Andy Pratt, have conditionally agreed the terms of their relationship as shareholders of Bidco;                   |
| “South Africa”                   | the Republic of South Africa;  |
| “Substantial Interest”           | a direct or indirect interest in 20.00 per cent. or more of the voting or equity capital (or equivalent) of an undertaking;  |
| “Third Party”                    | any government, government department or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body, court, stock exchange, trade agency, association, institution or any other body or person whatsoever in any jurisdiction;              |
| “UK” or “United Kingdom”         | the United Kingdom of Great Britain and Northern Ireland;  |
| “Unconditional Date”             | the date on which the Offer becomes or is declared unconditional in all respects in accordance with its terms;   |
| “USA” or “United States”         | the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia, and all other areas subject to its jurisdiction;  |
| “Wider Sanlam Group”             | Sanlam and the subsidiaries (including Sanlam UK and Bidco) and subsidiary undertakings of Sanlam and associated undertakings and any other undertakings or partnership or joint venture in which Sanlam and/or such undertakings (aggregating their interests) have a Substantial Interest; |
| “Wider Merchant Group”           | Merchant and the subsidiaries and subsidiary undertakings of Merchant and associated undertakings and any other undertakings or partnership or joint venture in which Merchant and/or such undertakings (aggregating their interests) have a Substantial Interest.                           |

All references to legislation in this announcement are to English legislation unless the contrary is indicated.

Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

For the purposes of this announcement, “subsidiary undertaking”, “subsidiary,” “associated undertaking” and “undertaking” have the meanings under the Companies Act.

References to “£”, “pounds sterling” and “pence” are to the lawful currency of the United Kingdom.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.

All times referred to in this announcement are to London times unless otherwise specified.