

METROPOLITAN
HOLDINGS LIMITED



Metropolitan Holdings Limited
Registration number: 2000/031756/06
JSE share code: MET
NSX share code: MTD
ISIN: ZAE000050456
("Metropolitan" or "the group")

KAGISO
Trust Investments

Kagiso Trust Investments (Pty) Ltd
Registration number: 1993/007845/07

("KTI")

Terms of Metropolitan's broad-based black economic empowerment ("BEE") transaction

1. INTRODUCTION

Metropolitan is a leading black economic empowerment company and is constantly seeking opportunities to enhance its empowerment status. Metropolitan has been involved for some time in developing an appropriate broad-based black economic empowerment ownership strategy to meet its overall empowerment objectives and to comply with the ownership requirements applicable to it, as contained in the Financial Sector Charter and related black empowerment legislation governing the financial sector in South Africa.

As part of this empowerment strategy, Metropolitan wishes to offer certain eligible black companies and investors the opportunity to subscribe for a meaningful stake in the enlarged issued share capital of Metropolitan.

Shareholders are advised that Metropolitan and Kagiso Trust Investments (Proprietary) Limited ("KTI"), a subsidiary of Kagiso Trust, a long-established broad-based empowerment entity, have concluded an agreement that will result in KTI acquiring a 10% interest in Metropolitan ("the transaction").

2. KAGISO TRUST AND KTI

The Kagiso Trust is a broad-based charitable organisation set up by the SA Council of Churches in the mid 1980s. It was established to provide assistance to underprivileged communities, with a focus on education, healthcare and general poverty alleviation. KTI was formed in December 1993 by the Kagiso Trust as a vehicle to generate sustainable, long-term financial support to Kagiso Trust for the purpose of community development and to achieve true economic empowerment through active, operational involvement in underlying strategic investments.

The ultimate beneficiaries of the Kagiso Trust are the projects and communities that it supports. The Kagiso Trust is generally recognised as one of South Africa's leading broad-based BEE groups.

KTI provides strategic and operational support to its partners. It adopts a proactive approach to investments, with a strong emphasis on business development and strategic positioning.

3. RATIONALE

Metropolitan was ranked first in the financial services sector and fourth overall in terms of empowerment in the April 2004 Financial Mail Top Empowerment Companies publication. This survey ranks the top 200 listed companies in South Africa in conjunction with empowerment rating agency Empowerdex.

The survey rates companies in terms of a number of factors. Metropolitan scored very well in the management (93.6%), employment equity (74.8%) and skills development (91.6%) categories but did not perform as well in terms of ownership.

The transaction will be a first step in addressing the issue of direct and strategic ownership, thereby confirming Metropolitan's commitment to BEE and both preserving and enhancing Metropolitan's business opportunities.

4. SALIENT TERMS OF THE TRANSACTION

KTI, through a wholly-owned private company ("Newco"), will procure the incorporation of a private company ("the SPV") to be the vehicle for the financing of the transaction. Newco will subscribe for 100% of the issued ordinary share capital of the SPV for a total subscription price of R30 million.

The SPV will issue redeemable preference shares ("SPV Prefs") for an aggregate issue consideration of R510 million to a consortium of banks comprising RMB, Absa and Nedbank Capital ("the Bank Consortium"). The SPV will therefore receive funds totalling R540 million.

Metropolitan will create 75 842 650 convertible redeemable preference shares at a par value of 0.0001 cents each ("the Met Prefs") and issue such Met Prefs to the SPV at a subscription price of R7,12 per share ("the Issue Price"), totalling R540 million.

The Issue Price of the Met Prefs was based on the weighted average of the price of the Metropolitan ordinary shares ("the Met Ords") re-purchased by Metropolitan earlier in the year at R6.75 per Met Ord (shareholders are referred to the announcement published on SENS on 13 April 2004), and the 30 day volume weighted average price at which the Met Ords traded on the JSE Securities Exchange South Africa ("the JSE") as at 18 May 2004.

5. THE TERMS OF THE MET PREFS

5.1. Type

The Met Prefs are cumulative convertible redeemable participating preference shares. These shares will not be listed on the JSE; however, application will be made to the JSE for listing of the Met Ords once conversion has taken place.

5.2. Duration

The Met Prefs are convertible into Met Ords on a one for one basis after year three and then, if not converted, compulsorily redeemable on the fifth anniversary of the date of issue. The Met Prefs will become immediately redeemable if there is an early redemption of the SPV Prefs.

5.3. Voting

Although the Met Prefs will not be listed, they will carry voting rights *pari passu* with the Met Ords. A dispensation in this regard has been granted by the JSE subject to certain conditions.

5.4. Dividends

The dividends will be paid semi-annually in arrears on 30 September and 31 March each year.

The coupon payable by Metropolitan on the Met Prefs will be the sum of the following margins:

5.4.1. 74% of the prime rate as charged by FirstRand Bank Limited;

5.4.2. an initial margin of 0.5%;

5.4.3. an additional performance margin of 0.5% every six months on the achievement by KTI of certain qualitative milestones agreed between KTI and Metropolitan for each period in advance, which will be paid on the next dividend payment date, and then semi-annually until the redemption of the Met Prefs;

5.4.4. an additional out-performance quantitative margin calculated semi-annually, based on the average of the annualised growth in dividend per share, value of new business and core headline earnings per share ("the Financial Ratios") achieved by Metropolitan in excess of 9%. The out-performance margins range between 0.065% and 0.545%, and will be paid on the dividend date following the period in which the growth in the Financial Ratios is achieved, and thereafter semi-annually until redemption of the Met Prefs.

5.5. Special Dividends

5.5.1. An additional amount of R3 616 668 will be paid on the Met Prefs, together with the first dividend.

5.5.2. Any special dividend declared and / or reduction of capital authorised by Metropolitan on the Met Ords will result in a similar special dividend paid and / or a corresponding reduction of Met Pref capital.

6. UNDERTAKING BY KTI

6.1. KTI will, for as long as it is a shareholder, directly or indirectly, in more than 2,5% of Metropolitan's issued share capital:

6.1.1. not conclude or participate in any transaction with a business competing with Metropolitan, if it will acquire, directly or indirectly, an interest in such business that exceeds 2,5% of the value of such business;

6.1.2. not carry on or be interested or engaged, directly or indirectly, in any business that competes with Metropolitan;

6.1.3. procure that no executives of KTI or its direct or indirect subsidiaries will be represented on the board or be involved in the management of any business competing with Metropolitan;

without Metropolitan's prior written consent.

6.2. This provision will not prohibit KTI or any of its subsidiaries from carrying on any business currently conducted by them or prevent any company in which KTI has an indirect interest but which is not controlled by KTI or its subsidiaries from expanding its existing business.

7. APPOINTMENT OF METROPOLITAN DIRECTORS

KTI will initially be entitled to nominate two persons for appointment as directors of Metropolitan.

8. RESTRICTION ON DISPOSAL OF SHARES

8.1. During the first five years the SPV will be entitled to dispose of any Met Ords into which any Met Prefs may have been converted, provided that:

8.1.1. after such disposal the number of Met Prefs and Met Ords held by the SPV does not fall below 10% of the total number of Metropolitan shares in issue immediately after these Met Prefs are issued ("the 10% Threshold");

8.1.2. the proceeds are either deposited with the Banking Consortium or utilised to redeem SPV Prefs; and

8.1.3. Metropolitan's written consent to such disposal is obtained.

8.2. In the period from the fifth anniversary to the tenth anniversary of the issue date of the Met Prefs, the SPV will be freely entitled, without the consent of Metropolitan, to sell Met Ords to the extent that after such sale the number of Met Prefs and Met Ords held by the SPV does not fall below the 10% Threshold. Between the fifth anniversary and the tenth anniversary, any sale of Met Ords in excess of the number which the SPV is entitled to sell pursuant to this sub-clause may only take place with the prior written consent of Metropolitan.

8.3. After the tenth anniversary, the SPV will be freely entitled to sell any or all of the Met Ords held by it, provided it has first offered such shares to Metropolitan or its nominee.

9. OPINIONS AND RECOMMENDATION

In terms of the Listings Requirements of the JSE, the transaction will be classified as a specific issue of convertible securities for cash. Accordingly, the transaction requires an opinion relating to the fairness and reasonableness of the transaction from an independent advisor. This fair and reasonable opinion will be included in the circular to shareholders referred to in paragraph 13 which will set out the details of the transaction.

The board believes the transaction to be fair and reasonable and in the best interests of Metropolitan and its shareholders and unanimously recommends that shareholders vote in favour of the resolutions to be considered at a general meeting to be convened specifically for this purpose. In respect of their own holdings of Metropolitan shares, the Metropolitan board members intend to vote in favour of the resolutions to be presented at the general meeting.

10. CONDITIONS PRECEDENT

The transaction is subject to the fulfillment of the following conditions precedent:

- KTI approving all the financing agreements;
- the conclusion of all the financing agreements and the fulfilment or waiver of the conditions to which those agreements are subject;
- the unqualified regulatory approvals for this transaction;
- the unqualified approval of the boards of KTI and Metropolitan;
- the approval by the requisite majority of Metropolitan shareholders in a general meeting of all the resolutions necessary to give effect to this transaction; and
- the appointment of the two KTI nominees as directors of Metropolitan.

11. EFFECTIVE DATE

The effective date of the transaction is expected to be 1 October 2004.

12. FINANCIAL EFFECTS

The unaudited pro-forma financial effects are presented for illustrative purposes only, and because of their nature may not be a fair reflection of Metropolitan's financial position after the transaction, nor of Metropolitan's future earnings.

Note	Actual before the transaction	Pro-forma after the transaction	Increase / (Decrease) (%)
Earnings per ordinary share (cents)	152.22	147.34	(3.2)
Headline earnings per ordinary share (cents)	159.80	154.57	(3.3)
Core headline earnings per ordinary share (cents)	62.09	61.28	(1.3)
Adjusted net asset value per ordinary share (cents)	715	716	0.1
Embedded value per ordinary share (cents)	1 068	1 053	(1.4)
Actual number of ordinary shares in issue (millions)	707	740	4.7
Weighted average number of ordinary shares in issue (millions)	699	732	4.7

Notes:

- 1) The pro-forma financial effects of the transaction set out above are based on the following assumptions:
 - a) The earnings, headline earnings, core headline earnings, adjusted net asset value and embedded value per share reflected in the "before" column were extracted from Metropolitan's audited results for the year ended 31 December 2003; and
 - b) it is the intention of the parties, and of the transaction, that the Met Prefs convert into Met Ords within five years; therefore they have been treated as Met Ords to illustrate the fully diluted position.
- 2) For the purposes of calculating the unaudited pro-forma earnings, headline earnings and core headline earnings per Metropolitan share, it was assumed that:
 - a) Investment income at an after-tax rate of 6.3% per annum (assuming a tax rate of 30%) was earned on the cash funds during the year ended 31 December 2003;
 - b) Metropolitan issued 75 842 650 new shares to KTI on 1 January 2003;
 - c) Metropolitan re-purchased 35 376 184 shares for R238 741 929 from Capricorn on 1 January 2003;
 - d) Metropolitan re-purchased 7 371 002 shares through the market for R54 545 415 on 1 January 2003;
 - e) costs totalling R4 500 000 million were written off against the share premium account on 1 January 2003; and
 - f) the special dividend of R3 616 668 was paid on 31 March 2003.
- 3) For the purposes of calculating the unaudited pro-forma adjusted net asset value and embedded value per Metropolitan share:
 - a) It was assumed that the transactions noted in 2 (a) to (e) above took place on 31 December 2003; and
 - b) The Met Prefs have been treated as Met Ords.

13. DOCUMENTATION

A circular containing full details of the transaction, the creation of the Met Prefs and including a notice of general meeting and the opinion of the independent advisor, will be posted to Metropolitan shareholders in due course.

14. WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

The cautionary issued on 26 May 2004 is hereby withdrawn.

Cape Town
17 June 2004

Sponsor to Metropolitan
Merrill Lynch South Africa (Pty) Ltd

Financial advisor to Metropolitan and arranger
Khumo Bathong Capital (Pty) Ltd

Attorneys to Metropolitan and transaction attorney
Deneys Reitz Inc

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