



27 January 2009

The Manager
Company Announcements Office
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Rationalisation of Tolhurst Business activities

- **Tolhurst and Patersons to merge to create major new Australian stockbroking group**
- **Tolhurst in receipt of acceptable bids for the sale of Community & Corporate Financial Services Pty Ltd**

Tolhurst Group Limited (**ASX: TNL**) is pleased to announce an in-principle agreement to merge its stockbroking business with Patersons Securities Limited.

On completion, the merger will create one of Australia's largest full service, retail stockbroking businesses.

The proposed merger will be effected through the sale of the Tolhurst broking business and brand names to Patersons. Subject to certain conditions being satisfied, Patersons will assume responsibility for property leases related to the Tolhurst stockbroking business.

Tolhurst will have the opportunity to subscribe for new shares in Patersons representing up to 31% of the merged group's expanded capital, which is representative of the share of revenue that Tolhurst is contributing.

The parties have agreed that the subscription price for new shares in Patersons will be determined by the net asset value of Patersons as at the time of subscription.

As part of the transaction, Patersons will also be granted options to acquire 15% of Tolhurst's total issued capital.

The transaction is subject to due diligence, regulatory approvals, formal legal documentation and, if required, shareholder approval. Major shareholders representing in excess of 50% of the issued capital of Tolhurst have indicated that they will support this transaction.

The key terms of the proposed transaction are set out in the appendix to this announcement.

Under the proposal, the new business will trade as Patersons Securities Limited (incorporating Tolhurst and William Noall Stockbrokers), acknowledging the strength and heritage of the Tolhurst and William Noall brands.

The new, merged organisation will have more than 400 employees, 370,000 clients and will rank in the top 20 of Australian stockbrokers by the measure of market turnover.



It will have one of the largest advisory networks in Australia, with a significant presence in all major capital city markets and a number of dynamic regional centres.

The expanded Patersons will continue to operate with a strong balance sheet, no debt and negligible intangibles.

Tolhurst Chairman David Browne said the proposed transaction was a positive outcome for Tolhurst shareholders, clients and staff.

“This is an exciting day for Tolhurst clients and will ensure they receive the best possible levels of service from a strong, expanded debt free firm going forward,” said Mr Browne.

“For Tolhurst shareholders and advisers, the merger provides the opportunity to be part of an Australian broking success story.”

“We look forward to the completion of the due diligence process and moving ahead with the proposal.”

Patersons Chairman Michael Manford said the merger was a win-win situation for both businesses.

“This merger will see the creation of an outstanding national retail stockbroking business that prides itself on delivering exceptional service to clients and is backed by a strong, robust organisation,” said Mr Manford.

“The two businesses have a long and proud history – their combination will create a dynamic new force in Australian stockbroking that provides clients with great service and an expanded range of investment opportunities.”

Further information on the transaction will be provided upon completion of due diligence and formal legal documentation.

Sale of Community & Corporate Financial Services Pty Ltd (ComCorp)

Tolhurst is pleased to also advise that the process that it has instigated for the sale of ComCorp has already yielded bids that, subject to due diligence, are acceptable to the Board and are materially in excess of Tolhurst’s total outstanding bank debt.

Tolhurst anticipates that it will be in a position to provide further detail in respect to this transaction by 13 February 2009.

Tolhurst Group Limited will, upon the completion of the sale of the Tolhurst stockbroking business and the sale of ComCorp, review its strategic direction having regard to the best interests of shareholders.

Other Developments

Tolhurst is also finalising a management buyout of its corporate activities in Brisbane.

As a result of the impending sale of ComCorp and the aforementioned management buy out, and as flagged in Tolhurst’s announcement to ASX on 19 December 2008, Tolhurst expects that there will be a significant impairment charge to its balance sheet relating to the carrying value of goodwill of ComCorp and Tolhurst InterFinancial Limited (Tolhurst’s corporate



finance division). The Board is now in a position to provide an estimate of that impairment charge and believes that it will be approximately \$23 million as at 31 December 2008.

In its announcement to ASX on 19 December 2008, Tolhurst also estimated that its pre-tax loss before impairment charges for the first 6 months of trading up to 31 December 2008 would be \$5.6 million. Tolhurst now advises that, upon a review of December trading, this pre-tax loss is now expected to be between \$6.3 million and \$6.5 million, before impairment charges. The increased loss is due to higher redundancy charges and lower trading volume in December than was expected

While Tolhurst continues to trade in breach of certain banking covenants, the actions as outlined above will rectify these breaches and the Board is confident from the discussions it has had of the ongoing support from its bankers.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'David Browne', with a large loop at the start and a trailing flourish.

David Browne
Executive Chairman



Appendix – Key terms of proposed transaction with Patersons

Shareholders should be aware that the key terms are yet to be formally documented and could change during the course of further negotiations or as a result of due diligence.

- Tolhurst agreeing to sell its broking and arbitrage business to Patersons in consideration for Patersons shares and, subject to certain conditions being satisfied, the assumption of property lease liabilities. The sale agreement will contain the customary warranties and limitation of liability provisions.
- The sale will be subject to a number of conditions including regulatory approvals and, if required, shareholder approvals.
- The purchase price for the Tolhurst broking business existing net assets is to be finalised during the course of due diligence but will be based on the value of the assets (principally plant and equipment and existing cash) and liabilities (principally property lease liabilities) being transferred and be satisfied by the issue of Patersons shares at a net asset value determined as at 28 February 2009. Tolhurst expects that the purchase price will be in the range of \$6 million to \$7 million.
- In addition to the shares issued by Patersons for the acquisition of the Tolhurst business, Tolhurst will have the opportunity to subscribe for new shares in Patersons to increase its shareholding to up to 31% of the merged groups' expanded capital. The actual proportion of Patersons shares to which Tolhurst will be entitled to subscribe will be dependent on the projected actual annualized revenue of Tolhurst up to 30 June 2009 which will be agreed during due diligence.
- Tolhurst expects that a shareholding of 31% in Patersons would require Tolhurst to contribute net assets of between \$10 million and \$12 million based on the current net assets of Patersons.
- The subscription price for new shares in Patersons will be determined by the net asset value of Patersons (excluding goodwill) at the time of subscription.
- Tolhurst will be prohibited from soliciting competing proposals or entering into negotiations or permitting due diligence subject to customary fiduciary carve-outs.
- Tolhurst will be required to pay Patersons a break fee of \$50,000 in the event that Tolhurst shareholders do not approve of the proposed transaction.
- Tolhurst will grant Patersons call options to acquire new shares equal to 15% of its total share capital. These options will have no issue price, an exercise price of \$0.075 and expire 18 months after Completion.
- Tolhurst will also agree not to be engaged in a competing business for a period of 12 months from Completion.