

**ARROWHEAD PROPERTIES LIMITED**  
(Incorporated in the Republic of South Africa)  
(Registration number 2011/000308/06)  
JSE share code: AWA ISIN: ZAE000203105  
(Approved as a REIT by the JSE)  
("Arrowhead")

**GEMGROW PROPERTIES LIMITED**  
(Incorporated in the Republic of South Africa)  
(Registration number 2007/032604/06)  
JSE share code: GPA ISIN: ZAE0000223269  
JSE share code: GPB ISIN: ZAE0000223277  
(Approved as a REIT by the JSE)  
("Gemgrow" or "the company")

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## POTENTIAL MERGER OF ARROWHEAD AND GEMGROW AND JOINT CAUTIONARY ANNOUNCEMENT

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### 1. The Transaction

Shareholders of both Arrowhead and Gemgrow (the "**Parties**") are advised that their respective boards of directors (the "**Boards**") have, in principle, agreed to a potential transaction which may result in the reverse takeover of Gemgrow by Arrowhead (the "**Merger**").

Gemgrow, a separately listed entity, was established in its current form in 2016, pursuant to a transaction concluded between its major shareholders, Arrowhead and Vukile Property Fund Limited ("**Vukile**"). Arrowhead currently owns 53.3% of Gemgrow.

Since its inception, Gemgrow has successfully grown its property portfolio from c.R4,3 billion to c.R5,6 billion via pro-actively recycling assets, selling off a number of its smaller assets and acquiring better quality, larger assets. As a result, Gemgrow's property portfolio is now more closely aligned with that of Arrowhead.

The Boards are of the view that there is no longer a clear rationale to retain two separate listings and believe that, in the current challenging operating environment, a simplified group structure would be more efficient and create synergistic benefits for all shareholders. In addition to Arrowhead's support for the Merger, Vukile, being Gemgrow's second largest shareholder, has provided an irrevocable undertaking to support the Merger.

It is expected that Gemgrow shareholders will benefit through improved liquidity, a significantly enhanced Gemgrow A share cash cover, as well as better future access to equity capital markets to support growth.

Post implementation of the Merger, the merged entity will take steps to strengthen its balance sheet by reducing debt and will continue to explore all available opportunities to unlock value by simplifying its group structure.

### 2. Transaction Overview

It is contemplated that the Merger, if approved, will be implemented as a reverse take-over of Gemgrow by Arrowhead. This transaction structure has been selected by the Parties so that the merged entity can continue to leverage off Gemgrow's dual-class share structure, which remains a valuable differentiator in the REIT sector, particularly in the context of any potential future industry consolidation.

It is anticipated that the Merger will be implemented on the following salient terms:

- the acquisition by Gemgrow of all of the issued shares in Arrowhead ("**Arrowhead Scheme Shares**"), by way of a scheme of arrangement between Arrowhead and its shareholders ("**the Scheme**") in terms of section 114 of the Companies Act, 71 of 2008;
- Gemgrow shall, as consideration for each Arrowhead Scheme Share acquired, issue and allot 0.8237 Gemgrow B ordinary shares, which ratio has been calculated using the forecast earnings of both Parties, adjusted for certain listed company distributions; and

- an economic effective date of 1 April 2019, resulting in each of Arrowhead and Gemgrow paying a dividend in the ordinary course of business to their respective shareholders in respect of earnings available for distribution for the period ended 31 March 2019.

This announcement does not constitute an offer, undertaking or firm intention to make an offer to Arrowhead shareholders by any party, including by Gemgrow.

### **3. Irrevocable undertakings**

In terms of the JSE Listings Requirements, the Merger constitutes both a Category 1 and related party transaction for Gemgrow and accordingly Gemgrow shareholder approval will be required.

Vukile, which holds 7.48% of the Gemgrow A ordinary shares and 28.0% of the Gemgrow B ordinary shares in issue (representing 25.3% of all the shares eligible to vote on the Merger), has irrevocably undertaken that, if the Scheme is proposed, Vukile will vote in favour of all Gemgrow resolutions necessary to approve the Merger.

In addition, Arrowhead has irrevocably undertaken to vote its Gemgrow B ordinary shares in favour of all Gemgrow resolutions necessary to approve the Merger (recognising that a number of these resolutions will require the approval of a majority of Gemgrow shareholders excluding Arrowhead).

### **4. Gemgrow corporate governance**

In ensuring compliance with appropriate corporate governance Mark Kaplan (CEO of both Arrowhead and Gemgrow) has recused himself from Gemgrow Board meetings at which the Merger has been considered. Further, the Gemgrow Board has appointed Nedbank Corporate and Investment Banking as independent corporate advisor to Gemgrow.

### **5. Cautionary announcement**

Arrowhead and Gemgrow shareholders are advised that discussions between the Parties in this regard remain ongoing and accordingly, shareholders should exercise caution when dealing in their respective shares until a further announcement in respect of the Merger has been made.

10 April 2019

#### **Corporate advisor and sponsor to Arrowhead**

Investec Bank Limited

#### **Independent corporate advisor and transaction sponsor to Gemgrow**

Nedbank Corporate and Investment Banking

#### **Corporate advisor to Gemgrow**

Investec Bank Limited

#### **Strategic transaction advisor to Arrowhead**

Ferryman Capital Partners

#### **Legal advisor**

Cliffe Dekker Hofmeyr