

**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")

JOINT FIRM INTENTION REGARDING GEMGROW PROCEEDING WITH ITS OFFER TO ACQUIRE ALL OF THE ARROWHEAD SHARES HELD BY ARROWHEAD SHAREHOLDERS BY WAY OF A SCHEME OF ARRANGEMENT AND WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT

1. Introduction

Shareholders are referred to the joint cautionary announcements released by Arrowhead and Gemgrow (the "**parties**") on SENS on 10 April 2019 and 28 May 2019, wherein shareholders were advised that their respective boards of directors have, in principle, agreed to a potential transaction which may result in the reverse takeover of Gemgrow by Arrowhead.

The respective boards of directors of Arrowhead and Gemgrow are pleased to announce that they have signed an offer and implementation agreement ("**implementation agreement**") setting out the terms and conditions upon which Gemgrow has offered to acquire all of the Arrowhead ordinary shares, but excluding the Arrowhead shares held in treasury, ("**scheme shares**"), from Arrowhead shareholders ("**scheme participants**") by way of a scheme of arrangement ("**scheme**") in terms of section 114 of the Companies Act, No. 71 of 2008, as amended ("**Companies Act**"), to be proposed by the board of Arrowhead to the scheme participants ("**transaction**").

Gemgrow shall, as consideration for each scheme share acquired, issue and allot to the scheme participants 0.8237 Gemgrow B ordinary shares ("**scheme consideration**"), which ratio has been calculated using the forecast earnings of both parties, adjusted for certain listed company distributions.

In the event that the scheme becomes operative, the listing of all of Arrowhead's ordinary shares ("**Arrowhead shares**") on the Main Board of the JSE Limited ("**JSE**") will be terminated, and the scheme participants will be deemed to have disposed of all of their scheme shares for the scheme consideration thereby constituting Arrowhead as a wholly-owned subsidiary of Gemgrow.

The purpose of this joint firm intention announcement ("**firm intention announcement**") is to advise Gemgrow shareholders and Arrowhead shareholders of the terms and conditions of the transaction.

2. Rationale for the transaction

Since its inception, Gemgrow has successfully grown its property portfolio from c.R4.3 billion to

c.R5.6 billion by pro-actively recycling assets, selling off a number of its non-core assets with non-sustainable income and acquiring better quality assets with sustainable income streams. As a result, Gemgrow's property portfolio is now more closely aligned with that of Arrowhead.

The Arrowhead and Gemgrow 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.

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 transaction, the combined group 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.

The transaction has been structured by the parties as a reverse take-over of Gemgrow in order to enable the combined group to continue to leverage off Gemgrow's dual-class share structure, which remains a valuable differentiator in the Real Estate Investment Trust ("REIT") sector, particularly in the context of any potential future industry consolidation.

3. Nature of the businesses

Gemgrow is a South African REIT, holding a diverse portfolio of office, retail and industrial properties. As at 31 March 2019, the portfolio comprised 163 properties, located in all nine provinces of South Africa and valued at approximately R5.6 billion.

Gemgrow's financial focus is on providing increasing income returns to its investors on a sustainable basis in the medium to long term. This is achieved through escalating rentals, satisfactory renewal of leases with existing tenants, renting of vacant space within the property portfolio, managing and reducing, where possible, costs associated with the property portfolio and by acquiring income-enhancing properties.

Arrowhead is a South African REIT focused on creating long-term shareholder value. Arrowhead holds a diverse portfolio of retail, office and industrial properties valued at R5.7 billion (held directly and through a wholly owned subsidiary). As at 31 March 2019, Arrowhead held a 55.7% interest in Indluplace Properties Limited (which owns a portfolio of residential properties), 61.5% of the Gemgrow B ordinary shares (equivalent to 53.3% of Gemgrow's total issued share capital), 16.4% in Reboasis Property Fund Limited and 8.6% in Dipula Income Fund Limited.

4. Salient terms of the transaction

4.1 Scheme consideration

Gemgrow shall, as consideration for each scheme share acquired, issue and allot to the scheme participants, 0.8237 new Gemgrow B ordinary shares.

Where a scheme participant's entitlement to the scheme consideration results in a fractional entitlement, such fraction of a Gemgrow B ordinary share will be rounded down to the nearest whole number, resulting in allocations of whole Gemgrow B ordinary shares and a cash payment will be made to the scheme participant for the fraction based on the volume weighted average share price trade on the JSE on the day after the expected scheme last day to trade discounted by 10%.

4.2 Conditions precedent to the scheme

- 4.2.1 The implementation of the scheme is subject to the fulfilment or waiver, as the case may be, of the following remaining conditions precedent:
- 4.2.1.1 by not later than 17h00 on 31 January 2020, the approval of the relevant Arrowhead shareholder resolutions by the requisite majority of Arrowhead shareholders is obtained at a general meeting of Arrowhead shareholders;
 - 4.2.1.2 by not later than 17h00 on 31 January 2020, the approval of the relevant Gemgrow shareholder resolutions by the requisite majority of Gemgrow shareholders is obtained at a general meeting of Gemgrow shareholders;
 - 4.2.1.3 by not later than 17h00 on 31 January 2020, to the extent required under section 115(3) of the Companies Act, approval by the court of the implementation of the special resolution contemplated in section 115(2) of the Companies Act in terms of which Arrowhead shareholders approved the scheme (“**scheme resolution**”) is obtained, and Arrowhead not having treated the scheme resolution as a nullity (which it may not do unless it is instructed to do so by Gemgrow) in terms of section 115(5)(b) of the Companies Act;
 - 4.2.1.4 as at 12h00 on the business day immediately following the last day on which a valid demand may be made by an Arrowhead shareholder in respect of the scheme in terms of section 164(7) of the Companies Act, Arrowhead has not received valid demands from Arrowhead shareholder/s holding in aggregate more than 5% of all the issued Arrowhead shares;
 - 4.2.1.5 by not later than 17h00 on 31 January 2020, the receipt of the unconditional approval in writing of the relevant South African competition authority/ies, to the extent required in terms of the the Competition Act 89 of 1998, as amended, of the transaction, or if such approval is conditional, such conditions being acceptable to the parties upon whom they are imposed or upon whom they have an impact, in their sole and absolute discretion, provided however that –
 - 4.2.1.5.1 in considering whether to accept any such condition, each party shall act in good faith;
 - 4.2.1.5.2 notwithstanding paragraph 4.2.1.5.1, Gemgrow shall not be bound to accept any such condition which requires the disposal of immovable property from the property portfolio of Arrowhead or Gemgrow, or the inclusion, removal or amendment of any terms contained in the existing leases applicable to the properties in such portfolios;
 - 4.2.1.6 as at 17h00 on the date on which the last of the conditions in paragraphs 4.2.1.2 to 4.2.1.5 has been fulfilled or, where appropriate, waived, none of the following events shall have occurred in respect of Arrowhead or Gemgrow —
 - 4.2.1.6.1 any corporate action, legal proceedings or other procedure or other step (including an application to court, proposal of a resolution or convening of a meeting of shareholders, members, directors or other officers) is taken by any person with a view to –
 - 4.2.1.6.1.1 a moratorium, compromise, composition, business rescue or similar arrangement with any of its creditors;

4.2.1.6.1.2 its winding-up, dissolution or commencement of business rescue proceedings, or for the seeking of relief under any applicable bankruptcy, insolvency, company or similar law, or any such resolution; or

4.2.1.6.2 the value of its assets is less than its liabilities (taking into account of contingent and prospective liabilities) or it is unable to pay its debts as they fall due; and

4.2.1.7 by not later than 17h00 on 31 January 2020, the issue of a compliance certificate by the Takeover Regulation Panel (“TRP”) in relation to the scheme.

4.3 Distributions

4.3.1 Provided that the scheme becomes operative (“**scheme operative date**”) before or on 15 January 2020, or such earlier or later date as may be agreed to by the parties, as being the last practicable date on which the scheme must have been implemented (“**September distributions last practicable date**”):

- the scheme consideration will be issued without scheme participants being entitled to participate in the distributable income of Gemgrow on the Gemgrow B ordinary shares for the period ending on 31 March 2019, but with the entitlement to Gemgrow's distributable income from 1 April 2019 until the scheme operative date and thereafter;
- the scheme shares will be acquired by Gemgrow without Gemgrow being entitled to participate in the distributable income of Arrowhead on the scheme shares in for the period ending on 31 March 2019 but with the entitlement to Arrowhead's distributable income from 1 April 2019 until the scheme operative date and thereafter;
- neither Gemgrow nor Arrowhead shall be entitled to declare or pay any dividends until after the date of fulfilment of the first condition that was not timeously fulfilled or, where possible, waived (such date the “**termination date**”) or the date on which the scheme consideration is to be issued to the scheme participants (“**scheme consideration settlement date**”), whichever is the earlier date.

4.3.2 In the event that the scheme operative date has not occurred prior to the September distributions last practicable date, then –

- the scheme operative date shall not occur until at least 1 business day after the later of (i) the date on which the dividend declared by Arrowhead in respect of the financial period ending 30 September 2019 (“**applicable period**”) is paid in full by Arrowhead and (ii) the date on which the dividend declared by Gemgrow in respect of the applicable period is paid in full by Gemgrow;
- the scheme consideration will be issued without scheme participants being entitled to participate in the distributable income of Gemgrow on the Gemgrow B ordinary shares for the applicable period, but with the entitlement to Gemgrow's distributable income from 1 October 2019 until the scheme operative date and thereafter; and
- the scheme shares will be acquired by Gemgrow without Gemgrow being entitled to participate in the distributable income of Arrowhead on the scheme shares for the applicable period but with the entitlement to Arrowhead's distributable income from 1 October 2019 until the scheme operative date and thereafter; and

- neither Gemgrow nor Arrowhead shall be entitled to declare or pay any dividends in respect of any period commencing on or after 1 October 2019, until after the termination date or the scheme consideration settlement date, whichever is the earlier date.

4.4 Treasury shares resulting from the implementation of the transaction

- 4.4.1 Arrowhead is the holder of 251,160,817 Gemgrow B shares. As a consequence of the implementation of the scheme, these Gemgrow B shares will, from the scheme operative date be shares held by a wholly-owned subsidiary in its holding company and therefore constitute "treasury shares" (the "**treasury shares**").
- 4.4.2 It is intended that the treasury shares will either be (i) converted into redeemable shares and thereafter be redeemed by Gemgrow, (ii) continue to be held by Arrowhead, or (iii) be dealt with by way of such other mechanism as may be agreed to by the parties.
- 4.4.3 Details of how the treasury shares will be dealt with will be set out in the category 1 circular relating to the transaction which will be distributed by Gemgrow to Gemgrow shareholders on or about 22 July 2019.

4.5 Exclusivity period

- 4.5.1 Arrowhead has agreed that during the exclusivity period (being the period commencing on the signature date and ending at the time on which the scheme resolution has been voted on), as set out in the implementation agreement, it will not, and shall procure that no director or employee thereof (acting in any capacity), shall directly or indirectly:
- solicit, initiate or encourage any expression of interest, enquiry, proposal or offer regarding any merger, amalgamation, business combination, takeover bid, sale or other disposition of all or substantially all of the equity in and/or business and/or assets of any of Arrowhead and its wholly owned subsidiary ("**Arrowhead entities**");
 - afford options to acquire equity, the business and/or assets in or of any of the Arrowhead entities or enter into any negotiation or agreement or consummate any transaction for any type of similar transaction or series of transactions, which would or could in either case constitute a change of control (as contemplated in section 123(5) of the Companies Act, read with Regulation 86 of the Companies Regulations) in relation to any of the Arrowhead entities or reasonably be considered to be likely to prejudice or frustrate the scheme or its implementation.
- 4.5.2 The provisions of paragraph 4.5.1 shall not prevent Arrowhead from complying with any requirements imposed by law including any of the directors' fiduciary obligations under the common law.

4.6 Change of name

As the transaction will be implemented as a reverse take-over of Gemgrow by Arrowhead, the Gemgrow board proposes, subject to the approval by Gemgrow shareholders and the Companies and Intellectual Property Commission, that Gemgrow change its name from "Gemgrow Properties Limited" to "Arrowhead Properties Limited".

4.7 Appointments to the Gemgrow board of directors

Subject to the approval by Gemgrow shareholders at the general meeting to be convened as detailed in paragraph 12 below, four non-executive directors of Arrowhead being Mathew Nell, Taffy Adler, Sam Mokorosi and Selwyn Noik and one executive director of Arrowhead being Riaz

Kader will be appointed to the Gemgrow board with effect from the scheme operative date. Two non-executive directors of Gemgrow being Ayesha Rehman and Clifford Abrams will resign from the Gemgrow board with effect from the scheme operative date.

5. Financial effects pertaining to the scheme

In terms of Regulation 101(7)(b)(iv) of the Companies Regulations, a firm intention announcement must contain, *inter alia*, the *pro forma* earnings and asset value per offeree regulated company security if the offer consideration consists wholly or partly of offeror securities.

The *pro forma* financial effects of the scheme for Arrowhead shareholders set out below are provided for illustrative purposes only to provide information about how the scheme may affect the financial performance and financial position of Arrowhead, and because of their nature, may not fairly represent the financial performance and financial position of Arrowhead after the implementation of the scheme.

The *pro forma* financial effects have been prepared in accordance with International Financial Reporting Standards, the Guide on *Pro Forma* Financial Information issued by the South African Institute of Chartered Accountants and the JSE Listings Requirements.

The table below sets out the *pro forma* financial effects of the scheme on an Arrowhead shareholder based on Arrowhead's unaudited interim results for the six months ended 31 March 2019. The *pro forma* statement of financial position at 31 March 2019 gives effect to the transaction as if it had occurred on 31 March 2019. The *pro forma* statement of profit or loss and other comprehensive income for the six months ended 31 March 2019 are presented as if the transaction had become operative at the beginning of the relevant period.

	Before the scheme	After the scheme	% change
Net asset value per Arrowhead share (R)	6.90	6.81	(1.3%)
Earnings per Arrowhead share (cents)	(29.43)	(16.04)	45.5%
Headline earnings per Arrowhead share (cents)	(32.60)	(18.54)	43.1%
Dividend per Arrowhead share (cents)	27.80	28.37	2.0%

Notes:

1. The "Before the scheme" column has been extracted without adjustment from the unaudited interim results of Arrowhead for the six months ended 31 March 2019.
2. For accounting purposes under IFRS, the transaction will be treated as the acquisition of the non-controlling interest of Gemgrow even though, legally, Gemgrow is the acquirer and will be the entity which will issue the consideration shares to the shareholders of Arrowhead.
3. Arrowhead already exercises control over Gemgrow by virtue of its shareholding in Gemgrow. Consequently, Gemgrow's profit and loss and other comprehensive income is consolidated into Arrowhead's statement of profit and loss and other comprehensive income.
4. As at 31 March 2019, Arrowhead had a net asset value of R7 billion.

6. Forecast financial information and property specific information

As required by the JSE Listings Requirements, a joint announcement informing Gemgrow and Arrowhead

shareholders of the forecast financial information of the combined group, together with the requisite property specific information in relation to each of the properties comprising Arrowhead's property portfolio as at 31 March 2019 will be released on SENS simultaneously with this announcement.

7. Independent expert

The Arrowhead board has appointed Mazars Corporate Finance Proprietary Limited to act as independent expert to review the terms of the scheme and to provide a fair and reasonable opinion required under Regulation 110 and in accordance with Regulation 90 of the Companies Regulations. The opinion of the independent expert will include the report required by section 114(3) of the Companies Act.

Arrowhead is classified as a related party to Gemgrow in terms of paragraph 10.1(b)(i) of the JSE Listings Requirements. The Gemgrow board has therefore appointed Questco Corporate Advisory Proprietary Limited to provide an independent opinion on the fairness of the transaction as required in terms of paragraph 10.4(f) of the JSE Listings Requirements.

8. Confirmation to the TRP

Gemgrow has confirmed with the TRP that it has a sufficient number of authorised B ordinary shares in order to satisfy the scheme consideration on implementation of scheme.

Gemgrow has also provided the TRP with an irrevocable confirmation in accordance with the Companies Regulations 111(4), from Cliffe Dekker Hofmeyr Incorporated that sufficient cash is held in escrow in order to satisfy the cash payments in respect of fractional entitlements as referred to in paragraph 4.1.

9. Shareholding in Arrowhead

In accordance with the requirements of Companies Regulations 101(7)(c)(i)-(iii), no beneficial interests in Arrowhead are held or controlled, directly or indirectly, by Gemgrow.

10. No concert party arrangements

Gemgrow is not acting in concert with any other person in relation to the scheme.

11. Approvals required by Arrowhead shareholders and distribution of scheme circular and prospectus

Full details of the scheme and ancillary matters will be set out in a joint circular which will be distributed by Arrowhead and Gemgrow to Arrowhead shareholders on or about 22 July 2019 which will include, *inter alia*, the opinions of the independent expert referred to in paragraph 7 above, a notice of scheme meeting of Arrowhead shareholders to approve the scheme and the applicable salient dates and times, including the date of the scheme meeting of Arrowhead shareholders. A prospectus in respect of the enlarged Gemgrow group, incorporating revised listing particulars will be distributed to Arrowhead shareholders together with the joint circular.

12. Approvals required by Gemgrow shareholders and distribution of circulars

The transaction will constitute a category 1, related party acquisition for Gemgrow in terms of the JSE Listings Requirements and accordingly Gemgrow shareholder approval will be required. Full details of the transaction will be set out in a category 1 circular which will be distributed by Gemgrow to Gemgrow shareholders on or about 22 July 2019 which will include, *inter alia*, the opinions of the independent expert referred to in paragraph 7 above, a notice of general meeting of Gemgrow shareholders to approve the

transaction and other ancillary matters as well as the applicable salient dates and times, including the date of the Gemgrow combined general meeting of Gemgrow shareholders and the separate class meetings for holders of the Gemgrow A shares and the Gemgrow B shares respectively.

In addition, the transaction will constitute a reverse takeover of Gemgrow by Arrowhead in terms of the JSE Listings Requirements, requiring revised listing particulars in respect of the enlarged Gemgrow group, post implementation of the transaction. A prospectus, incorporating revised listing particulars will be distributed by Gemgrow to Gemgrow shareholders together with the category 1 circular.

13. Shareholder support

Vukile Property Fund Limited (“**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 transaction), has irrevocably undertaken that, if the scheme is proposed, Vukile will vote in favour of all the resolutions necessary to approve the transaction at the general meeting of Gemgrow shareholders.

In addition, Arrowhead has irrevocably undertaken to vote in favour of all the resolutions necessary to approve the transaction at the general meeting of Gemgrow shareholders (recognising that a number of these resolutions will require the approval by the majority of Gemgrow shareholders excluding Arrowhead).

14. Responsibility statements

The independent board of Arrowhead (consisting of Matthew Nell, Taffy Adler, Selwyn Noik and Sam Mokorosi) accepts responsibility for the information contained in this announcement insofar as it relates to Arrowhead and the scheme. To the best of the independent board of Arrowhead’s knowledge and belief, the information contained in this announcement is true and this announcement does not omit anything likely to affect the importance of the information.

The Gemgrow board accepts responsibility for the information contained in this announcement insofar as it relates to Gemgrow. To the best of the Gemgrow board’s knowledge and belief, the information contained in this announcement is true and the announcement does not omit anything likely to affect the importance of the information.

15. Withdrawal of cautionary announcements

Post the simultaneous release of this announcement and the announcement referred to in paragraph 6 above, shareholders of Arrowhead and Gemgrow are advised that caution is no longer required to be exercised in their dealings in Arrowhead and Gemgrow shares.

8 July 2019

Corporate advisor and sponsor to Arrowhead

Investec Bank Limited

Independent corporate advisor and transaction sponsor to Gemgrow

Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Corporate advisor to Gemgrow

Investec Bank Limited

Strategic transaction advisor to Arrowhead

Ferryman Capital Partners

Legal advisor and competition lawyers

Cliffe Dekker Hofmeyr Incorporated

Reporting accountants

BDO South Africa Incorporated

Independent expert to Gemgrow

Questco Corporate Advisory Proprietary Limited

Independent expert to Arrowhead

Mazars Corporate Finance Proprietary Limited

Independent property valuers

Yield Enhancement Solutions Proprietary Limited

Real Insight Proprietary Limited