



KLK LANDBOU LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1997/015589/06)
("KLK" or the "Company")

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The definitions commencing on page 6 of this Circular, save as the context may otherwise indicate, apply throughout this Circular, including this cover page.

OFFEREE RESPONSE CIRCULAR TO KLK SHAREHOLDERS

regarding:

- **the opinion of the Independent Board**, set out in paragraph 3.2, page 11 of this Circular relating to the general offer, in terms of section 117(1)(c)(v) of the Companies Act, by Subtropico to acquire all the remaining shares in KLK, from all the remaining shareholders of KLK, for a purchase consideration of R17.50 per KLK Share, or a share alternative of 1 (one) Subtropico share ("**Subtropico Share**") for every 6 (six) KLK Shares, or a combination of cash and Subtropico Shares.

and incorporating:

- **the opinion of the Independent Expert** appointed by KLK, which opinion is set out in paragraph 3.1, page 11 of this Circular.

Action required:

1. If you are in any doubt as to the action you should take or require an understanding of the commercial, tax, accounting or other effects of a particular action as it affects you, please consult your broker, banker, accountant, attorney and/or other professional advisor immediately.
2. If you have disposed of all or any of your KLK Shares, please forward this Circular to the purchaser of such Shares or to the broker, banker and/or other agent through whom the disposal was effected.
3. The options available to Shareholders are:
 - to reject the Offer; or
 - to accept the Offer in respect of all or any of your Shares.
4. **If you wish to reject the Offer and you have not already accepted the Offer, you do not need to take any further action.**
5. If you wish to reject the Offer, but you have already accepted the Offer then you may withdraw that acceptance, by notice in writing delivered to Subtropico to this effect, prior to the Offer being declared wholly unconditional.
6. If you wish to accept the Offer, you must do so in the manner described in the Subtropico Circular.



SUMMARY OPINION OF THE INDEPENDENT BOARD:

The Independent Board is unanimously of the opinion that the terms and conditions of the Subtropico Offer are **unfair and unreasonable** and accordingly recommends that the Eligible Shareholders reject the Offer, after due consideration of the fair and reasonable opinion of the Independent Expert.

KLK does not accept responsibility and will not be held liable for any act of, or omission by, any broker, banker, accountant, attorney and/or other professional advisor including, without limitation, any failure on the part of the broker, banker, accountant, attorney and/or other professional advisor or any registered holder of Shares to notify the holder of any beneficial interest in those Shares of the Offer set out in the Subtropico Circular and this Circular.

Shareholders are made aware that in accordance with section 201(3) of the Companies Act, the TRP did not, in approving this Circular, express any view or opinion on the commercial advantages or disadvantages of the Offer and/or any transaction pursuant thereto.

This Circular is available in both English and Afrikaans. Copies of this Circular are available from the registered office of the Company, at the address set out on page 3 under the “*Corporate information and advisors*” section of this Circular, from Monday, 28 January 2019 until the Closing Date, both days inclusive. This Circular is also available on the Company’s website, www.klk.co.za.

<p style="text-align: center;">Attorneys to KLK</p>  <p style="text-align: center;"><small>CLIFFE DEKKER HOFMEYR</small></p>	<p style="text-align: center;">Independent Expert</p> 
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Date of issue: Monday, 28 January 2019

CORPORATE INFORMATION AND ADVISORS

Registered office and KLK Company Secretary

14 Karakoel Street
Upington
8801
(PO Box 86, Upington, 8800)

Place of incorporation: South Africa
Date of incorporation: 17 September 1997
Website: www.klk.co.za
KLK Company Secretary: Grandville Marquard
Contact number: 054 337 6200

Attorneys to KLK

Cliffe Dekker Hofmeyr Inc.
(Registration number 2008/018923/21)
11 Buitengracht Street
Cape Town, 8001
South Africa
(PO Box 695, Cape Town 8000)

Independent Expert

Ernst & Young Advisory Services Proprietary Limited
(Registration number 2006/018260/07)
97 Dorp Street
La Gratitude Office
Stellenbosch
7600

IMPORTANT INFORMATION

The definitions commencing on page 6 of this Circular apply to this section.

Foreign Shareholders

This Circular has been prepared for purposes of complying with the Companies Act and the Regulations, published from time to time in terms of the Companies Act. The information disclosed may not be the same as that which would have been disclosed had the Circular been prepared in accordance with the laws and regulations of any jurisdiction outside of South Africa.

The release, publication or distribution of this Circular in jurisdictions other than South Africa may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than South Africa should inform themselves about, and observe, any applicable requirements. Any failure to comply with the applicable requirements may constitute a violation of the securities laws of any such jurisdiction. This Circular is not intended to, and does not constitute, or form part of, an offer to sell or subscribe for any securities or a solicitation of any offer, vote or approval in any foreign jurisdiction.

KLK Shareholders

Shareholders are advised to read this Circular in conjunction with the Subtropico Circular, which contains the terms and conditions of the Offer, with care.

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DEFINITIONS

In this Circular, unless otherwise stated or the context so requires, the words and expressions in the first column have the meanings stated opposite them in the second column, words in the singular shall include the plural and *vice versa*, words denoting one gender include the other and expressions denoting natural persons include juristic persons and associations of persons and *vice versa*:

"ARC"	UBI General Partner Proprietary Limited (registration number 2016/224437/07), a private company incorporated in accordance with the laws of South Africa, in its capacity as General Partner of The African Rainbow Capital Fund;
"Board" or "Directors"	the directors of KLK as at the Last Practicable Date, the names of whom are set out on page 10 of this Circular or any one or each of them, as the context may require;
"Business Day"	a day other than a Saturday, Sunday or official public holiday in South Africa;
"Cash Offer"	has the meaning given thereto on page 10 of this Circular;
"Circular"	this offeree response circular to KLK Shareholders, dated 28 January 2019, and all annexures hereto and incorporating the opinion of the Independent Expert as contemplated in Regulation 102 of the Regulations;
"Closing Date"	the last date on which Eligible Shareholders will be able to participate in the Offer, which date will be at least 10 (ten) Business Days after the Fulfilment Declaration Date;
"Companies Act"	the Companies Act, No 71 of 2008, as amended from time to time;
"Documents of Title"	tangible documents of title including share certificates, certified transfer deeds, balance receipts or any other tangible document of title evidencing ownership of KLK Shares;
"Fulfilment Declaration Date"	the date on which the Offer is declared or announced as being wholly unconditional, which declaration or announcement must occur within 1 (one) Business Day after the date the Offer has become unconditional in all respects;
"Eligible Shareholders"	the registered holders of the 11 922 506 KLK Shares not directly or indirectly held by Subtropico and its associates;
"Executive Management"	the members of the management of KLK, comprising Messrs SD van Huyssteen, A Human, P Swart, J Schutte and C Booyesen, as at the Last Practicable Date, or any or each of them as the context may require;
"Firm Intention Announcement"	the announcement published by KLK on 15 November 2018 setting out the terms of a firm intention by Subtropico to propose the Offer to Eligible Shareholders;
"Foreign Shareholders"	a Shareholder who is not a resident of South Africa or who is not subject to South African tax;
"Independent Board"	collectively, Messrs WSB du Toit, A Human, AR Kotzé, GC Olivier, JPN Stander and Ms VJ Klein, for purposes of expressing an opinion on the Offer and the Offer Consideration in accordance with Regulation 110;
"Independent Expert"	Ernst & Young Advisory Services Proprietary Limited, registration number 2006/018260/07, a private company incorporated in accordance with the laws of South Africa;
"KLK" or the "Company"	KLK Landbou Limited, registration number 1997/015589/06, a public company incorporated in accordance with the laws of South Africa;

"KLK Company Secretary"	the company secretary of KLK, the name of whom is set out on page 3 of this Circular;
"KLK Group"	KLK and its Subsidiaries;
"KLK Shareholders" or "Shareholders"	registered holders of KLK Shares;
"KLK Shares" or "Shares"	ordinary shares with a par value of R1 each in the share capital of KLK;
"Last Practicable Date"	Thursday, 24 January 2019, being the last practicable date prior to the finalisation of this Circular;
"Offer"	the offer by Subtropico to the Eligible Shareholders, to acquire all their shares in KLK at the Offer Consideration, as set out more comprehensively in the Subtropico Circular;
"Offer Consideration"	R17.50 for every one KLK Share held by Eligible Shareholders who validly accepted the Offer, or a share alternative of 1 (one) Subtropico share for every 6 (six) KLK Shares, or a combination of cash and Subtropico shares based on the table of entitlement in Annexure 6 to the Subtropico Circular, subject to the conditions precedent as set out in paragraph 3.3 of the Subtropico Circular, whichever may be elected by the Offer Participant in the form of acceptance, transfer and surrender;
"Offer Participants"	Eligible Shareholders to whom the Offer is made and who validly and lawfully accept the Offer during the Offer Period;
"Offer Period"	the period beginning at 09:00 on the Opening Date and ending at 12:00 on the Closing Date, during which Eligible Shareholders will be entitled to participate in the Offer;
"Offer Record Date"	the record date of the Offer, being Tuesday, 27 November 2018;
"Offer Shares"	all of the Shares held by the Eligible Shareholders, but specifically excluding those Shares held by Subtropico;
"Opening Date"	the opening date in respect of the Offer, being 09:00 on Thursday, 13 December 2018;
"Rand" or "R"	South African Rand, the official currency of South Africa;
"Register"	the securities register of KLK maintained by the KLK Company Secretary;
"Regulations"	the Companies Regulations, 2011 made in terms of sections 120 and 223 of the Companies Act;
"Share Offer"	has the meaning given thereto on page 10 of this Circular;
"Senwes"	Senwes Limited, registration number 1997/005336/06, a public company incorporated in accordance with the laws of South Africa, whose shares are listed on ZAR X stock exchange;
"Senwesbel"	Senwesbel Limited, registration number 1996/017629/06, a public company incorporated in accordance with the laws of South Africa, whose shares are listed on ZAR X stock exchange;
"South Africa"	the Republic of South Africa;
"Subsidiaries"	has the meaning determined in accordance with section 3 of the Companies Act;
"Subtropico"	Subtropico Limited, registration number 1993/000220/06, a public company incorporated in accordance with the laws of South Africa;

"Subtropico Circular"	the offeror offer circular distributed to Shareholders by Subtropico, dated Wednesday, 12 December 2018, and all annexures thereto and incorporating the form of acceptance, surrender and transfer;
"Subtropico Shares"	the ordinary shares in Subtropico referred to and as defined on the front page of this Circular which term includes both plural and singular;
"Suspensive Conditions"	the conditions precedent to the implementation of the Offer, stipulated in paragraph 3.3 of the Subtropico Circular; and
"TRP"	the Takeover Regulation Panel established pursuant to section 196 of the Companies Act.

SALIENT DATES AND TIMES ¹

	Date
Firm Intention Announcement published on	Thursday, 15 November 2018
Offer Record Date	Tuesday, 27 November 2018
Posting of the Subtropico Circular to Shareholders on	Wednesday, 12 December 2018
Opening Date of the Offer at 09:00 on	Thursday, 13 December 2018
Posting of this Circular to Shareholders on	Monday, 28 January 2019
Announcement regarding the fulfilment of the Suspensive Conditions on ²	Thursday, 28 February 2019
Closing Date of the Offer at 12:00 on	Anticipated to be no earlier than 10 (ten) Business Days following the date on which the Offer becomes unconditional in all respects
Final payment of the Offer Consideration to Offer Participants, expected to be made on	Fulfilment Declaration Date or the date of acceptance of the Offer, whichever occurs later + 6 (six) Business Days
Final Announcement pertaining to the Offer published by not later than 16:30 on	Opening Date + 45 (forty-five) Business Days

Notes:

1. All of the dates and times set out in this Circular are subject to change, with the approval of the TRP, if required.
2. Eligible Shareholders who accept the Offer will have the Offer Consideration transferred to them by way of an electronic funds transfer within 6 (six) Business Days of the later of the Fulfilment Declaration Date or the date on which such KLK Shareholders deliver their form of acceptance, surrender and transfer, as attached to the Subtropico Circular, and Documents of Title to the KLK Company Secretary.



KLK LANDBOU LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1997/015589/06)
("KLK" or the "Company")

Directors

Mr JS Marais (*chairman*)
Mr SD Van Huyssteen (*managing director*)
*^ Mr JPN Stander (*vice -chairman*)
Dr BP Botha (*non-executive director*)
* Mr WSB du Toit (*non-executive director*)
* Mr A Human (*financial director*)
* Mrs VJ Klein (*non-executive director*)
* Mr AR Kotzé (*non-executive director*)
* Mr GC Olivier (*non-executive director*)

* *Members of the Independent Board*

^ *Chairperson of the Independent Board*

OFFEREE RESPONSE CIRCULAR TO KLK SHAREHOLDERS

1 INTRODUCTION

Shareholders are referred to the Subtropico Circular in terms whereby Eligible Shareholders were advised of the conditional offer by Subtropico to acquire the 11 922 506 KLK Shares not directly or indirectly held by Subtropico and its associates, for the Offer Consideration, being R17.50 per share ("**Cash Offer**"), or a share alternative of 1 (one) Subtropico Share for every 6 (six) KLK Shares ("**Share Offer**"), or a combination of cash and Subtropico Shares.

As at the Last Practicable Date, Subtropico holds 5 258 885 KLK Shares, representing approximately 30.61% of the total KLK Shares in issue.

The Offer is an "*affected transaction*" as defined in section 117(1)(c)(v) of the Companies Act and, as such, the Offer is regulated by the Companies Act and the Regulations.

Subtropico has indicated that it does not intend to implement section 124 (*Compulsory acquisitions and squeeze-out of remaining shareholders, should they obtain 90% of shares in KLK*) of the Companies Act.

In accordance with the Regulations, the Independent Board was constituted to consider the Offer and provide Shareholders with its opinion and recommendation regarding the Offer and the Offer Consideration, having, *inter alia*, obtained and given due consideration to the fair and reasonable opinion provided by the Independent Expert.

2 PURPOSE OF THIS CIRCULAR

The purpose of this Circular is to:

- provide Shareholders with the fair and reasonable opinion of the Independent Expert, in accordance with Regulation 90, as read with sections 114(2) and 114(3) of the Companies Act;
- provide Shareholders with the Independent Board's opinion and recommendation regarding the Offer and the Offer Consideration, having, *inter alia*, obtained and given due consideration to the fair and reasonable opinion of the Independent Expert and taken into account the matters set out in paragraph 4 (below) of this Circular; and
- provide Shareholders with the Independent Board's comments on certain statements contained in the Subtropico Circular, which the Independent Board believes require clarification.

For a full understanding of the terms and conditions of the Offer, this Circular should be read in conjunction with the Subtropico Circular.

3 OPINIONS AND RECOMMENDATIONS

3.1 Opinion of the Independent Expert

The Independent Expert has, in accordance with Regulation 90, performed a valuation of the KLK Shares and Subtropico Shares and provided its opinion to the Independent Board.

Taking into consideration the terms and conditions of the Offer and based on the results of the procedures performed, detailed valuation work and other considerations, as set forth in the fair and reasonable opinion, the Independent Expert is of the opinion that:

- The **Cash Offer is not fair** due to the offer price of R17.50 per Share being below the value range of R19.00 to R23.50 that an offeror should offer for the acquisition of the KLK Shares.
- The **Share Offer is fair but not reasonable** due to the Eligible Shareholders' lack of representation on the board of directors of Subtropico, in light of certain critical decisions that needs to be taken by Subtropico immediately after the Offer has been implemented.

The fair and reasonable opinion of the Independent Expert is included in Annexure 1 to this Circular.

3.2 Opinion and recommendation of the Independent Board

The Independent Board is unanimously of the opinion that the terms and conditions of the Offer are **unfair and unreasonable** and accordingly recommends that the Eligible Shareholders reject the Offer, after due consideration of the fair and reasonable opinion of the Independent Expert and taking into account the following matters:

- The cash consideration offered in terms of the Cash Offer is less than the cash consideration set out in the signed firm intention letter dated 14 December 2018 delivered by Senwes and Senwesbel to the Board with terms more favourable than the terms applicable to the Cash Offer of Subtropico.
- Subtropico did not register a prospectus with the Companies and Intellectual Property Commission established in terms of the Companies Act, prior to extending the Share Offer to Shareholders, nor was the Offer accompanied by a registered prospectus or an advertisement that satisfies the requirements pertaining to a registered prospectus. In view of section 108 of the Companies Act, Subtropico may not be able to validly implement the Share Offer unless it rectifies or addresses its non-compliance with the applicable provisions of the Companies Act and the Regulations.
- It is the considered opinion of the Independent Board that the implementation of the Offer, other than the proposed monetary payment or issuance of Subtropico Shares to KLK Shareholders, will have limited sustainable, strategic or operational benefits for stakeholders of KLK (which includes the KLK Shareholders, customers, employees and suppliers).

All of the Directors, excluding Dr BP Botha, who hold a beneficial interest, directly or indirectly, in KLK Shares, as further detailed in paragraph 6.3 of this Circular, have indicated that they intend to reject the Offer.

The Independent Board has not received any other written offers in respect of the Shares in the 6 (six) months preceding the Offer Period, but has received a copy of the firm intention letter referred to above in this paragraph 3.2 confirming Senwes' firm intention to make an offer as contained in the said firm intention letter.

4 COMMENTS ON CERTAIN STATEMENTS IN THE SUBTROPICO CIRCULAR

Shareholders are referred to the cautionary announcement dated 21 December 2018 published by KLK regarding certain concerns raised by KLK with Subtropico in connection with the Offer due to:

- the general offer not being accompanied by a registered prospectus or an advertisement that satisfies the requirements pertaining to a registered prospectus; and
- certain misleading and/or confusing statements contained in, or the omission of certain pertinent details from the Subtropico Circular.

The following matters, which do not represent a complete list of the concerns the Independent Board has in relation to the Subtropico Circular, were raised with Subtropico via written communication on Thursday, 20 December 2018:

4.1 Settlement

In paragraph 4 (*Offer Acceptance Period*) of the Subtropico Circular, it is stated therein that "*Settlement of the offer consideration will take place weekly in respect of all acceptances received*". This is not correct nor possible and paragraph 7 of the Subtropico Circular to which the reader is referred for further information does not clarify the position at all. The said paragraph 4 contradicts the content dealt with in paragraph 9 (*Settlement*) of the Subtropico Circular.

The Independent Board is informed by KLK that certain Eligible Shareholders posed queries to, and/or requested clarification from, KLK regarding the date for payment of the Offer Consideration in view of the fact that the Subtropico Circular provides that the offer consideration will be settled on a weekly basis as stipulated in paragraph 4 (*Offer Acceptance Period*) of the Subtropico Circular.

4.2 Surrender of Documents of Title

In paragraph 8 (*Surrender of documents of title*) of the Subtropico Circular, KLK Shareholders are asked to surrender documentation in regard to a general offer that has not been accompanied by a registered prospectus. In terms of section 108 of the Companies Act, Subtropico will not be able to implement the Share Offer unless it rectifies or addresses its non-compliance with the Companies Act and the Regulations.

4.3 Concert Parties

In paragraph 19 (*Concert Parties*) of the Subtropico Circular, it is stipulated that Subtropico has no concert parties, yet it is clearly stated in the signed term sheet concluded between Subtropico and ARC that the underlying transaction and purpose in respect of which the parties concluded the term sheet relates to Subtropico's intention to "*make a formal offer to KLK Landbou Limited (KLK) shareholders to acquire control of KLK*". The term sheet further confirms that Subtropico would pay:

- A once off facilitation fee to ARC for supporting the guarantee issued by ABSA Bank Limited; and
- the guarantee fee payable by ARC to ABSA Bank Limited for the issuance of the R160 000 000 guarantee.

Shareholders are informed that the TRP did not express any view or opinion on the issue of concert parties in respect of the Offer.

4.4 Other

The interchangeable use of different definitions in essential parts of the Subtropico Circular creates uncertainty as to the rights and/or obligations of the persons to whom the Offer is made (i.e. "*remaining shareholders*") as opposed to those persons who are able to accept the offer (i.e. "*KLK Shareholders*") and those persons in relation to whom practical requirements are referenced (i.e. "*Offerees*"). For example:

- in paragraph 3.2 (*Offer*) of the Subtropico Circular, the persons to whom the Offer was made excludes Subtropico and its associates (i.e. by definition "*remaining shareholders of KLK*") whereas the group of persons described in paragraphs 4 (*Offer Acceptance Period*) and 7 (*Procedure for acceptance by Offerees*) of the Subtropico Circular who is able to accept the Offer and is asked to follow the set procedure for acceptance, includes Subtropico and its associates (i.e. by definition "*KLK Shareholders*"). Moreover, Subtropico has not indicated to the KLK Shareholders the associates to whom it refers in said paragraph;
- in paragraph 5 (*TRP Funding Confirmation*) of the Subtropico Circular, the funding confirmation is stipulated with reference to the acceptance by the remaining shareholders of KLK (i.e. excludes Subtropico and its associates), however, the Offer is capable of acceptance by a group of persons that includes Subtropico and its associates;
- in paragraph 6 (*Tax Implications for Offerees*) of the Subtropico Circular, the tax treatment of persons registered as shareholders of KLK as at the "Record Date" (i.e. as opposed to registered from time to time) are referenced; and
- in paragraph 8 (*Surrender of Documents of Title*) of the Subtropico Circular, persons registered as shareholders of KLK as at the "Record Date" are obliged to surrender their documents of title despite the said circular denoting that a trade could have taken place and if the "*Offeree*" fails to do so then the offer consideration will be deemed to have been received by "*KLK shareholders*" (a different group of persons by definition) and no qualification was introduced to clarify that this deemed status will only devolve if indeed the "*KLK shareholders*" (which by definition includes Subtropico) accepted the Offer.

In the purported auditors' report to the Subtropico Circular, it is stipulated that the auditor evaluated reasonableness by having regard to facts such as that "*Subtropico Limited Group of Companies will issue new shares, at the current share price per share, to KLK Landbou Limited Group of Companies for an exchange of the majority shareholding in KLK Landbou Limited Group of Companies*". Based on the terms of the Share Offer, new shares will not be issued to KLK and accordingly the basis of the auditor's evaluation is flawed.

In the purported auditors' report attached to the Subtropico Circular, it is stated that the report was issued to Subtropico on a restricted basis and is not to be distributed to any other parties. It appears from the Subtropico Circular that the auditor of Subtropico only consented to their name (and not their report) being used in the Subtropico Circular.

In the purported independent expert report attached to the Subtropico Circular, it is stated that the independent board of Subtropico is required to retain an independent expert and that BDO Corporate Finance Proprietary Limited ("**BDO**") has been appointed as the independent expert to assess the Share Offer Price (as such term is defined in the Subtropico Circular) as required in terms of Regulations 90 and 110 of the Companies Act. It therefore follows that in accordance with the provisions of Regulation 90(2), section 114(2) and (3) of the Companies Act apply, however, neither the Subtropico Circular nor the purported report of BDO addresses the requirements set out in section 114(2) and (3) of the Companies Act. Accordingly, BDO has not dealt with, nor has it described, the material effects of the Offer and the financing arrangements set out in the term sheet concluded between ARC and Subtropico as contemplated in section 114(3)(c) of the Companies Act and section 114(3)(d) of the Companies Act.

The purported evaluation by BDO of Subtropico on a 'sum-of-the-parts' basis includes a value placed on Subtropico's shareholding in KLK. However, BDO did not perform any valuation on KLK or the

securities of KLK. The value placed by BDO on a KLK Share held by Subtropico was done simply with reference to the cash consideration which Subtropico is currently offering to a KLK Shareholder.

The term sheet signed by ARC and Subtropico is not referred to in the Subtropico Circular nor made available for inspection despite that agreement being a material agreement in relation to the Offer.

The statements set out in the Subtropico Circular confirms that Subtropico is making a general offer to a section of the public (namely all KLK Shareholders generally, other than Subtropico and its associates) holding a specific class of property (KLK Shares) for each of them to subscribe for shares in Subtropico without there being any existing relationship between Subtropico and such person. Such an offer constitutes an offer to the public which offered had to be accompanied by a registered prospectus. Based on the relevant requirements of the Companies Act, as read with the Regulations **(and in particular with reference to the Regulation that specifically references requirements for a prospectus to be issued in relation to a general offer)**, the circular sent by Subtropico does not constitute a registered prospectus.

On Monday, 14 January 2019, KLK received a written response from Subtropico in regard to the aforementioned matters raised with them. Based on the details of the response received from Subtropico, the KLK Independent Board has formed the view that, save for Subtropico's proposal to approach the TRP for a ruling as to whether or not Subtropico and ARC are acting in concert, Subtropico does not intend to remedy or effectively address the confusing and misleading statements in the Subtropico Circular, the need for a prospectus and the deficient reporting by BDO on pertinent issues impacting the Offer.

5 FINANCIAL INFORMATION

5.1 Historical financial information

Extracts of the audited consolidated annual financial statements of the KLK Group for the 3 (three) financial years ended 29 February 2016, 28 February 2017 and 28 February 2018 and the unaudited consolidated half year financial statements for 31 August 2018 are set out in Annexure 2 to this Circular.

5.2 *Pro forma* financial information

The Offer Consideration is to be settled as follows: consideration of R17.50 per share, or a share alternative of 1 (one) Subtropico Share for every 6 (six) KLK Shares, or a combination of cash and Subtropico Shares. Accordingly, the Eligible Shareholders will not hold any form of security after the Offer and therefore the *pro forma* financial information of KLK and *pro forma* effects per Share are not required to be disclosed in this Circular.

6 BENEFICIAL INTERESTS AND DEALINGS

6.1 Beneficial interest and dealings by KLK in Subtropico securities

As at the Last Practicable Date, KLK does not hold a beneficial interest, directly or indirectly, in any securities of Subtropico.

KLK has not dealt for value in any securities of Subtropico during the period beginning 6 (six) months before the Offer Period and ending on the Last Practicable Date.

6.2 Beneficial interest and dealings by the Directors of KLK in Subtropico securities

As at the Last Practicable Date, the following KLK Directors and alternate Directors of KLK holds a beneficial interest, directly or indirectly, in any securities of Subtropico.

Director	Direct	Indirect	Total
Dr BP Botha	21 129	1 114 697	1 135 826
Mr BP Botha (alternate)	20 000	1 700	21 700
	41 129	1 116 397	1 157 526

None of the Directors has dealt for value in any securities of Subtropico during the period beginning 6 (six) months before the Offer Period and ending on the Last Practicable Date.

6.3 **Beneficial interest and dealings by the Directors of KLK in KLK Shares**

As at the Last Practicable Date, the beneficial interests of the Directors (current and those who resigned during the last 18 (eighteen) months) in the issued share capital of KLK are as follows:

Director	Direct	Indirect	Total	Percentage*
Mr JS Marais	300 208	-	300 208	1.75%
Mr JPN Stander	120 939	-	120 939	0.70%
Mr SD van Huyssteen	23 184	16 351	39 535	0.23%
Dr BP Botha (Alt. BP Botha)	-	[^] 5 258 885	5 258 885	30.61%
Mr WSB du Toit	63 385	-	63 385	0.37%
Mr AR Kotze	458	-	458	0.00%
Mr GC Olivier	5 883	-	5 883	0.03%
Mr A Human	-	7 000	7 000	0.04%
Mr JAA Engelbrecht (retired July 2018)	-	129 115	129 115	0.75%
Mr JM Bredenkamp (retired July 2017)	13 565	-	13 565	0.08%
	527 622	5 411 351	5 938 973	34.57%

* Percentage shareholding is calculated as a percentage of the total issued share capital of KLK as at the Last Practicable Date.

[^] The KLK Independent Board believes Dr BP Botha is able to control the exercise of the voting rights attached to the KLK Shares held by Subtropico.

The following Directors have dealt directly or indirectly for fair value in KLK Shares during the period beginning 6 (six) months before the Offer Period and ending on the Last Practical Date:

- Dr BP Botha indirectly (through Subtropico) purchased 194 113 KLK Shares for value of R3 144 686.
- Mr A Human indirectly purchased 4 000 KLK Shares for value of R62 000.
- Mr JS Marais directly sold 134 000 KLK Shares for value of R2 216 360.

6.4 **Beneficial interest and dealings by the irrevocably committed person(s) in Subtropico securities and KLK Shares**

As far as the Independent Board is aware, no persons have irrevocably committed to accept or reject the Offer.

7 **SERVICE CONTRACTS**

There are no material provisions of an abnormal nature in respect of the executive management service contracts or entered into between KLK and its Subsidiaries which require specific disclosure.

8 **AGREEMENTS**

As at the Last Practicable Date, no agreements exist between:

- KLK and Subtropico, save for the right of pre-emption granted by Subtropico to KLK on 26 February 2016 to purchase Subtropico's entire shareholding in KLK;
- KLK and any director of Subtropico, or any person who was a director of Subtropico within the 12 (twelve) months prior to the Last Practicable Date; and
- KLK and any shareholder of Subtropico, or any person who was a shareholder of Subtropico within the 12 (twelve) months prior to the Last Practicable Date,

that could be considered to be material to a decision regarding the Offer to be taken by the Eligible Shareholders.

9 **INDEPENDENT BOARD'S RESPONSIBILITY STATEMENT**

The members of the Independent Board, collectively and individually, insofar as any information in this Circular relates to KLK, have considered all statements of fact and opinion in this Circular; and

- accept full responsibility for the information contained in this Circular; and
- certify that, to the best of their knowledge and belief, the information contained in this Circular is true and correct; and
- certify that this Circular does not omit anything that is likely to affect the importance of any information contained in this Circular.

No member of the Independent Board is excluded from the statements above.

10 **MATERIAL CHANGE**

There have been no material changes to the terms of the Offer as set out in the Subtropico Circular.

11 **CONSENTS**

Each of the Independent Expert and attorneys to KLK have consented and have not, prior to the Last Practicable Date, withdrawn their written consent to the inclusion of their names and, where applicable, their opinions in the form and context in which they appear in this Circular.

12 **GOVERNING LAW**

This Circular, the Offer and any acceptance of the Offer will be governed by, and construed in accordance with, the laws of South Africa, and will be subject to the exclusive jurisdiction of the South African courts.

13 **DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents or copies thereof, are available for inspection at the registered office of KLK, from the date of issue of this Circular, up to and including the Closing Date:

- the memorandum of incorporation of KLK;
- the consolidated financial reports of KLK for the 3 (three) financial years ending 29 February 2016, 28 February 2017, 28 February 2018 and unaudited half year consolidated financial results ending 31 August 2018 (complete copies of which are available on the website of KLK and printed copies of which will be posted to the Shareholders upon request);
- the confirmatory ruling of the TRP to retain the Independent Expert in respect of the Offer;
- the letter of approval of the TRP in respect of this Circular;
- the fair and reasonable opinion of the Independent Expert in respect of the Offer, the text of which is included as Annexure 1 to this Circular and which includes the Independent Expert's written consent referred to in paragraph 11 of this Circular;
- the written consent of the attorneys of KLK referred to in paragraph 11 of this Circular;
- the Subtropico Circular; and
- a signed copy of this Circular.

By order of the Independent Board



JPN Stander
Chairperson of the Independent Board

28 January 2019
Upington

ANNEXURE 1: FAIR AND REASONABLE OPINION OF INDEPENDENT EXPERT



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REPORT AND OPINION OF THE INDEPENDENT EXPERT

The Independent Board
KLK Landbou Limited
14 Karakoel Street
Uppington
8800
South Africa

20 December 2018

INDEPENDENT EXPERT OPINION ON THE PROPOSED OFFER FROM SUBTROPICO LIMITED TO ACQUIRE 100% OF KLK LANDBOU LIMITED

Dear Sirs

1 Introduction

Subtropico Limited (“Subtropico”) made an offer to acquire all of the shares in KLK Landbou Limited (“KLK”) that they do not already own on 12 December 2018. Subtropico offered KLK’s shareholders R17.50 per share in cash, or 1(one) Subtropico share for every 6 (six) KLK shares held, or a combination of cash and shares (“The Offer”). Should KLK’s shareholders accept the cash offer, the maximum cash consideration paid shall be R208 643 855, or equivalent to 69.39% of the KLK shares.

Subtropico currently holds 5 258 885 shares in KLK, which comprise 30.61% of the issued ordinary shares of KLK. The Offer is made by way of a general offer by Subtropico to KLK shareholders, as defined in regulation 102(1) of the Companies Regulations, 2011 (“Regulations”), as read with Section 117(1)(c)(v) of the Companies Act, No. 71 of 2008 (“Companies Act”).

The offer circular received from Subtropico highlight the following salient details, in addition to the information above:

- Subtropico does not intend to implement section 124 of the Companies Act. i.e. squeeze out the remaining shareholders, should they obtain 90% of the shares in KLK.
- KLK shareholders may elect to accept the offer in whole or in part and must indicate in the form of acceptance, transfer and surrender in what form they wish to receive the offer consideration.
- Subtropico has the right to extend the date on which all conditions precedent need to be fulfilled.

The offer will be subject to the following conditions precedent by 28 February 2019:

- Obtaining Competition Commission approval;
- Subtropico increasing its authorised share capital; and
- Approval by the TRP in terms of the Companies Act.

Subtropico has secured funding for the acquisition, in line with the requirements of the Companies Act and the TRP Regulations 111(4) and 111(5), from Absa Bank Limited that has provided two bank guarantees in the amounts of R50 000 000 and R160 000 000 to satisfy the full offer consideration payable in terms of the offer, namely R208 643 855.

The guarantee for R160 000 000 is secured through a funding facility entered into between Subtropico and UBI General Partner Proprietary Limited in its capacity as General Partner of The ARC Fund that currently has a 25.1% shareholding in Subtropico. The material terms of The ARC Fund funding facility are as follows:

- The guarantee will be in place until 28 February 2019.
- Should the guarantee be utilised, Subtropico can either repay the funds drawn by cash or by the issue of Subtropico shares to The ARC Fund at R105 per share.
- Any outstanding funds drawn against the guarantee will carry interest at prime and will be settled in cash or shares by no later than 31 March 2019.
- The ARC Fund will also subscribe for additional shares at R105 per share in order to retain its 25.1% shareholding in Subtropico if the offer results in a dilution of its shareholding in Subtropico to below 25.1%.
- Subtropico will first utilise the R50 000 000 ABSA guarantee for the cash acquisition of shares and thereafter draw any the ARC Fund guarantee.
- Subtropico will endeavour to limit The ARC Fund's shareholding in Subtropico resulting from the offer to below 30%.
- Subtropico paid a once-off guarantee fee of 1.75% of the R160 000 000 funding to ARC Fund, which amounts to R2 800 000. The fee became payable within 3 days of ARC Fund issuing the guarantee to the TRP.

The guarantee for R50 000 000 is secured through the cession of current cash facilities for an amount not less than R50 000 000.

2 Scope

The offer from Subtropico constitutes an affected transaction in terms of S117 (1) (c) (v) of the Companies Act No 71 of 2008 and as such an independent expert is required to be retained by the KLK Landbou Limited.

Ernst & Young Advisory Services (Proprietary) Limited ("EY") has been appointed by the Independent Board of KLK ("KLK Independent Board") as the independent expert to advise on whether the terms and conditions of the Offer are fair and reasonable to the shareholders of KLK.

3 Responsibility

Compliance with the Companies Act and Takeover Regulations is the responsibility of the KLK Independent Board. Our responsibility is to report on the Offer in compliance with the Companies Act, Companies Regulations and TRP Regulations.

We confirm that our report has, insofar as it relates to the Offer, been provided to the KLK Independent Board for the sole purpose of assisting it in forming and expressing an opinion for the benefit of KLK Shareholders.



4 The terms “fair” and “reasonable”

Market value is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

A transaction will generally be considered "fair" to the company's shareholders if the benefits received by shareholders, as a result of a corporate action, are equal to or greater than the value surrendered. The assessment of "reasonableness" is generally based on qualitative issues. Even though the consideration attributable to the transaction may differ from the market value of the shares subject to a transaction, a transaction may still be reasonable after considering other significant qualitative factors.

This report and opinion does not purport to cater for individual shareholders' positions but rather the general body of KLK Minorities as a grouping of shareholders.

An individual KLK shareholder's opinion regarding the Offer may be influenced by his or her particular circumstances (for example taxation and the consideration received for the shares). Should a KLK shareholder be in doubt, he or she should consult an independent expert as to the merits of the Offer, considering his/her personal circumstances.

5 Information utilized

We relied on financial and other information, including historical and prospective financial information, and presentations obtained from KLK and Subtropico's respective management teams, together with industry-related and other information in the public domain in developing our valuation models. Our conclusion is dependent on such information being complete and accurate in all material respects.

We have relied upon the accuracy of the information used by us, where practicable, we have corroborated the reasonableness of such information through, amongst other things, reference to work performed by independent third party/ies, historic precedent or our own knowledge and understanding. While our work has involved an analysis of the valuation model and other information provided to us, our work does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards.

The principal sources of information used in performing our independent valuation and in formulating our opinion regarding the Offer include:

- Cautionary announcement / Firm intention announcement released by the board of Subtropico on 15 November 2018.
- KLK management's 3-year forecast;
- Subtropico's 5 year headline earnings forecast;
- Audited annual financial statements of KLK for the years ended 28 February 2016, 2017 and 2018;
- Detailed management accounts of KLK for the years ended 28 February 2016, 2017 and 2018;
- Audited annual financial statements of Subtropico for the years ended 31 December 2015, 2016 and 2017;
- The unaudited half-year results of Subtropico Limited
- The unaudited management accounts of KLK and its subsidiaries to October 2018.
- Market data sourced from Capital IQ and ZARX website; and
- Inet.bfa

Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of our opinion, whether in writing or obtained through discussions with the respective management teams.

6 Procedures performed

We have undertaken the following procedures in evaluating the Offer:

- Performed detailed Discounted Cash Flow (“DCF”) valuations of both KLK (and its subsidiaries) and Subtropico (and its subsidiaries) to calculate the Enterprise Values of the respective businesses.
- The five year cash flow forecasts of KLK and Subtropico were discounted using the Weighted Average Cost of Capital (“WACC”), which was calculated separately for both Groups.
- Adjusted the calculated enterprise values for excess cash, debt and debt like items and non-operating assets in order to calculate the respective equity values.
- Compared the DCF valuation results and the implied Price:Earnings (“PE”) and Enterprise Value:EBITDA (“EV/EBITDA”) multiples to the adjusted multiples of a selection of JSE listed companies from the food and agricultural sectors. The comparable multiples were adjusted for size, control, diversification and liquidity.
- Compared the valuation results to the cash offer for KLK shareholders and the stated swap ratio of KLK shares for Subtropico shares.
- Opined on the fairness and reasonableness of both the cash component and the share swap component of the Offer.

7 Valuation approach and results

KLK

In considering the Offer, we performed a DCF valuation of KLK based on management’s forecast prepared as at October 2018.

For the purposes of our valuation, our methodology included:

- Applying the income approach by way of a discounted cash flow forecast valuation on a “Sum of the Parts” basis where we calculated the holdings of KLK in SA Dorper and Carpe Diem separately by applying separate discounted cash flow valuations to each of these entities.
- Adjusted the calculated enterprise values for excess cash, debt and debt like items and non-operating assets in order to calculate the respective equity values.
- Applied a liquidity and marketability discount the determined equity value in order to account for the fact that KLK shares are not traded on the JSE. Note that the valuation did not include a minority discount as this report and opinion does not purport to cater for individual shareholders’ positions but rather the general body of KLK Minorities as a grouping of shareholders.
- Compared the DCF valuation results and the implied Price:Earnings (“PE”) and Enterprise Value:EBITDA (“EV/EBITDA”) multiples to the adjusted multiples of a selection of JSE listed companies from the food and agricultural sectors. The comparable multiples were adjusted for size, control, diversification and liquidity.

The key internal value drivers for the business of KLK are highlighted below:

- Consumer price index (“CPI”) and the impact on the food, fuel and leather export inflation and South African operating costs;
- EUR/ZAR exchange rate impact on the Euro denominated forecast for exports; and
- South Africa GDP forecast and demand for KLK’s products both locally and internationally.

Below is a summary of our critical valuation assumptions applied:

- Terminal growth rate -4.5%
- 5 year Revenue CAGR - 10.4%
- WACC - 15.33%
- Liquidity and marketability discount - 9.7%
- Valuation date 31 October 2018

A sensitivity analysis performed on the key value drivers of KLK is summarised in the table below that sets out the valuation range determined. The valuation range of R19.00 to R23.50, with a mid-point of R21.25, compares to the sensitivity analysis. We note that the discount rate applied in the valuation is subject to the required return of the individual investor.

Sensitivity analysis		WACC		
KLK valuation (controlling stake and 9.7% L&M)	R21.25	14.58%	15.33%	15.83%
Terminal Growth	4.25%	R22.55	R20.95	R20.01
	4.50%	R22.92	R21.25	R20.27
	4.75%	R23.30	R21.57	R20.55

Sensitivity analysis		WACC		
KLK valuation (controlling stake and 12.5% L&M)	R20.59	14.58%	15.33%	15.83%
Terminal Growth	4.25%	R21.85	R20.30	R19.39
	4.50%	R22.20	R20.59	R19.65
	4.75%	R22.57	R20.90	R19.92

The above sensitivities were performed using the base DCF valuation of KLK and making the following adjustments to the key inputs and assumptions of the valuation:

- Increased and decreased the WACC of 15.33% by 0.5% respectively;
- Increased and decreased the terminal growth rate of 4.5% by 0.25% respectively; and
- Applying both a 9.7% and 12.5% liquidity and marketability discount.

Subtropico

In considering the Offer, we performed a DCF valuation of Subtropico based on management's latest historical information as at June 2018. The historical information was used in order to determine a five year cash flow forecast of Subtropico based on available market information and discussions with management.

For the purposes of our valuation, our methodology included:

- Applying the income approach by way of a discounted cash flow forecast valuation.
- Performing separate valuations of Subtropico subsidiaries with minority shareholders based on the Headline Earnings contribution to Subtropico's consolidated Headline Earnings.
- Adjusted the calculated enterprise value for excess cash, debt and debt like items and non-operating assets in order to calculate the equity value.
- Applied a liquidity and marketability discount the determined equity value in order to account for the fact that Subtropico shares are not traded on the JSE.
- Note that the valuation included a minority discount for Subtropico, as the KLK shareholder will become minority shareholders in Subtropico, as the offer did not make any allowance for board representation of the KLK shareholders grouping, should they elect to take the swap option.
- Compared the DCF valuation results and the implied Price:Earnings ("PE") and Enterprise Value:EBITDA ("EV/EBITDA") multiples to the adjusted multiples of a selection of JSE listed companies from the food and agricultural sectors. The comparable multiples were adjusted for size, control, diversification and liquidity.

The key internal value drivers for the business of KLK are highlighted below:

- Consumer price index ("CPI") and the impact on the food (meat, fruit and vegetables inflation and South African operating costs;
- Subtropico's estimated market share; and
- South Africa GDP forecast and demand for Subtropico's products locally.

Below is a summary of our critical valuation assumptions applied:

- Terminal growth rate: 4.5%
- 5 year Revenue CAGR: 7.8%
- WACC: 15.33%
- Liquidity and marketability discount: 9.7%
- Minority discount: 10%
- Valuation date 30 June 2018

A sensitivity analysis performed on the key value drivers of Subtropical is summarised in the table below that sets out the valuation range determined. We note that the discount rate applied in the valuation is subject to the required return of the individual investor.

Sensitivity analysis		WACC		
Subtropical valuation (minority stake and 9.7% L&M)	R116.65	14.58%	15.33%	16.08%
Terminal Growth	4.25%	R122.18	R115.17	R109.05
	4.50%	R123.89	R116.66	R110.36
	4.75%	R125.68	R118.21	R111.73

Sensitivity analysis		WACC		
Subtropical valuation (controlling stake and 12.5% L&M)	R125.59	14.58%	15.33%	16.08%
Terminal Growth	4.25%	R131.54	R124.00	R117.41
	4.50%	R133.38	R125.60	R118.82
	4.75%	R135.31	R127.27	R120.30

The above sensitivities were performed using the base DCF valuation of Subtropical and making the following adjustments to the key inputs and assumptions of the valuation:

- Increased and decreased the WACC of 15.33% by 0.5% respectively;
- Increased and decreased the terminal growth rate of 4.5% by 0.25% respectively; and
- Applying both a 9.7% and 12.5% liquidity and marketability discount.

Swap ratio results and sensitivity.

Based on the results and sensitivities of the above valuation, we calculated the sensitivities for the 1:6 swap ratio.

Sensitivity analysis		WACC		
Swap ratio (9.7% L&M)	5.49	14.58%	15.33%	16.08%
Terminal Growth	4.25%	5.42	5.50	5.45
	4.50%	5.41	5.49	5.44
	4.75%	5.39	5.48	5.44

Sensitivity analysis		WACC		
Swap ratio (12.5% L&M and controlling Subtropical stake)	6.10	14.58%	15.33%	15.83%
Terminal Growth	4.25%	6.02	6.11	6.06
	4.50%	6.01	6.10	6.05
	4.75%	5.99	6.09	6.04

The above sensitivities swap ratio were performed using the base DCF valuations and making the following adjustments to the key inputs and assumptions of the valuation:

- Increased and decreased the WACC of 15.33% by 0.5% respectively;
- Increased and decreased the terminal growth rate of 4.5% by 0.25% respectively;
- Applying both a 9.7% and 12.5% liquidity and marketability discount; and
- Including the values for a controlling stake in Subtropico (bottom table).

9 Shareholder rights

The KLK shareholders, as a grouping, will have the opportunity to either accept the cash component of the Offer or the Share component of the Offer, or alternatively elect to reject both the cash and share Offers.

The KLK shareholders that elect to accept the cash offer will have no negative impact on their rights as shareholders.

The KLK shareholders that elect to accept the share offer will, as a grouping, become the second largest grouping of shareholders in Subtropico. Should the entire grouping of KLK shareholders elect to accept the Offer and elect to swap their KLK shares for Subtropico shares, their stake in Subtropico would exceed 30%. However, the Offer does not make provision for any board representation in Subtropico in order to represent their interests.

This position should be assessed in light of the dependence on funding for a cash from ARC and the requirement to settle any funding by the end of March 2018, which is within a relative short timeframe after the closure of the offer. Two scenarios might arise as a result of the above mentioned requirement where board representation are of critical importance of a significant shareholders grouping:

- Subtropico's board might opt to dispose of certain of KLK's assets in order to meet the above mentioned funding requirement; or
- ARC might take up a greater stake in Subtropico, due to the conversion of the debt in equity which might result in ARC being forced to make a Mandatory Offer to the minority shareholders of Subtropico in line with the requirements of section 123 of the Companies Act which will dilute the current shareholders groupings interest in the combined Subtropico and KLK businesses.

The lack of shareholder representation for the KLK shareholders and the risk that the group of shareholder may not be represented on a board that has to assess the above mentioned scenarios hamper the rights of the KLK shareholders that elect to take the share swap option.

The shareholders of KLK that elect not to take the offer will become an increasingly smaller grouping of KLK shareholders that will have increasingly limited ability to influence the direction of the newly merged company and value of their investments in the newly merged company.

10 Opinions

Cash Offer

Based on the results of our procedures performed, our detailed valuation work and the other considerations listed in paragraphs 6 to 9 above, we are of the opinion that the cash component of the Offer is not fair, due to the offer price of R17.50 being below the value range that an offeror should make for KLK shares of R19.00 to R23.50.

Swap ratio

Based on the results of our procedures performed, our detailed valuation work and the other considerations listed in paragraphs 6 to 9 above, we are of the opinion that the share offer of 1 (one) Subtropico share for every 6 (six) KLK shares held is fair, due to the swap ratio falling within the range of 5.42 and 6.06, but unreasonable, due to the lack of representation for the KLK shareholders on the board of Subtropico, in the light of certain critical decisions that needs to be taken regarding the newly merged company immediately subsequent to the proposed transaction.

11 Limiting conditions

The valuation above is provided solely in respect of this report and opinion and should not be used for any other purposes. Our opinion is based upon the information available to us up to 14 December 2018, including in respect of the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us at the date thereof.

We have furthermore assumed that all conditions precedent, including any material regulatory, other approvals and consents required in connection with the Offer have been or will be timeously fulfilled and/or obtained. Accordingly, it should be understood that subsequent developments may affect this opinion, which we are under no obligation to update, revise or re-affirm.

This report and opinion does not purport to cater for each individual KLK shareholder's circumstances and/or risk profile, but rather that of the general body of shareholders taken as a whole. Each KLK shareholder's decision will be influenced by such shareholder's particular circumstances and, accordingly, shareholders should consult with an independent adviser if they are in any doubt as to the merits or otherwise of the Offer.

This report and opinion is provided solely for the use of the KLK Independent Board and KLK Shareholders and for the sole purpose of assisting the KLK Independent Board in forming and expressing an opinion on the Offer for the benefit of the KLK Shareholders. Unless as stipulated in this letter, this opinion shall not, in whole or in part, be disclosed, reproduced, disseminated, quoted, summarised or referred to at any time, in any manner or for any purpose, nor shall any public references to EY or Ernst & Young Advisory Services Proprietary Limited be made by KLK or any of its affiliates, without the prior consent of Ernst & Young Advisory Services Proprietary Limited.

We have relied upon the accuracy of the information used by us in deriving our opinion albeit that, where practicable, we have corroborated the reasonableness of such information through, amongst other things, reference to work performed by independent third party/ies, historic precedent or our own knowledge and understanding. While our work has involved an analysis of the valuation model and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards. Accordingly, we assume no responsibility and make no representations with respect to the accuracy of any information provided to us in respect of KLK.

Forecasts relate to uncertain future events and are based on assumptions, which may not remain valid for the whole of the forecast period. Consequently, forecast financial information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting purposes. We express no opinion as to how closely actual results will correspond to projections made by the management of KLK or Subtropico (including its underlying investments) and made available to us during the course of our review.

12 Independence, competence and fees

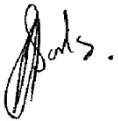
We confirm that we have no direct or indirect interest in KLK or Subtropico (including underlying investments) shares. We also confirm that we have the necessary qualifications and competence to provide this report and opinion on the acquisition.

Our fees amount to R500 000 excluding VAT and disbursements. Furthermore, we confirm that our professional fees are not contingent upon the success of the Offer.

13 Consent

We consent to the use of our name, the inclusion of this letter and the reference to our report and opinion in the Circular to be issued to the KLK Shareholders in the form and context in which it appears and in any required regulatory announcement or documentation.

Yours sincerely



Hannes Boshoff

Partner

Ernst & Young Advisory Services Proprietary Limited

ANNEXURE 2: HISTORICAL CONSOLIDATED FINANCIAL INFORMATION OF KLK

The definitions commencing on page 6 of this Circular apply to this annexure.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE PERIOD AS AT:

	Unaudited 31 August 2018 R'	Audited 28 February 2018 R'	Audited 28 February 2017 R'	Audited 29 February 2016 R'
ASSETS				
Non-current assets				
Property, plant and equipment	222 291 111	210 062 204	176 751 542	161 896 928
Investment properties	3 509 714	3 509 714	3 509 714	3 509 714
Goodwill	32 001 830	28 668 497	25 835 164	22 501 831
Intangible assets	1	1	1	1
Deferred Tax	11 910 834	11 910 833	9 841 018	8 734 689
	269 713 490	254 151 249	215 937 439	196 643 163
Current Assets				
Inventories	270 519 112	192 318 036	173 620 218	198 886 501
Trade and other receivables	179 122 801	127 150 070	140 855 803	133 971 311
Cash and cash equivalents	56 693 917	78 825 090	37 077 898	37 568 072
	506 335 830	398 293 196	351 553 919	370 425 884
TOTAL ASSETS	776 049 320	652 444 445	567 491 358	567 069 047
EQUITY AND LIABILITIES				
Equity				
Share capital	17 181 391	17 181 391	17 181 391	17 181 391
Distributable reserves	332 303 755	319 240 721	283 907 259	246 908 091
	349 485 146	336 422 112	301 088 650	264 089 482
Non-controlling interest	106 969 336	93 434 524	77 307 998	54 002 472
	456 454 482	429 856 636	378 396 648	318 091 954
Non-current liabilities				
Deferred tax	14 062 739	14 062 166	12 071 778	9 982 889
Long-term loans	10 708 344	14 325 413	19 507 661	20 593 909
Deferred government grant	10 697 992	7 682 268	5 436 973	4 696 727
	35 469 075	36 069 847	37 016 412	35 273 525
Current liabilities				
Bank overdrafts	72 427 826	16 656 617	13 184 053	19 751 135
Current portion of long-term loan	5 154 262	5 154 262	4 714 460	3 454 313
Current portion of deferred government grant	1 351 230	1 351 230	453 946	1 648 138
Trade and other payables	203 825 246	162 062 347	130 902 273	183 349 982
Non-controlling shareholders loan	1 367 199	1 293 506	2 823 566	5 500 000
	284 125 763	186 517 962	152 078 298	213 703 568
TOTAL LIABILITIES	319 594 838	222 587 809	189 094 710	248 977 093
TOTAL EQUITY AND LIABILITIES	776 049 320	652 444 445	567 491 358	567 069 047

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOMEFOR THE PERIOD ENDING:

	Unaudited 31 August 2018 R'	Audited 28 February 2018 R'	Audited 28 February 2017 R'	Audited 29 February 2016 R'
Revenue	1 268 196 136	2 165 192 947	2 187 254 524	2 278 673 072
Cost of sales	(1 044 216 979)	(1 784 371 002)	(1 781 968 366)	(1 888 053 406)
Gross profit	223 979 157	380 821 945	405 286 158	390 619 666
Other Income	17 569 684	17 972 869	15 011 987	15 499 931
Expenses	(185 436 964)	(313 537 932)	(319 191 293)	(303 442 852)
Operating profit	56 111 877	85 256 882	101 106 852	102 676 745
Investment income	3 886 487	6 210 481	5 179 077	4 800 390
Finance charges	(4 954 192)	(7 597 120)	(6 637 250)	(5 601 823)
Profit before taxation	55 044 172	83 870 243	99 648 679	101 875 312
Income tax	(15 412 368)	(22 815 406)	(27 424 206)	(28 147 989)
Profit after tax	39 631 804	61 054 837	72 224 473	73 727 323
Other comprehensive income	-	-	-	-
Total comprehensive income	39 631 804	61 054 837	72 224 473	73 727 323
Total comprehensive income attributable to:				
Owners of the holding company	24 746 380	46 342 871	50 055 908	55 611 725
Non-controlling interest	14 885 424	14 711 966	22 168 565	18 115 598
	39 631 804	61 054 837	72 224 473	73 727 323

CONSOLIDATED STATEMENT OF CHANGES IN EQUITYFOR THE PERIOD ENDING:

	Share capital R'	Distributable Reserves R'	Change in ownership R'	Total R'	Non- controlling interest R'	Total equity R'
Balance at 1 March 2015	17 181 391	197 355 589	2 164 931	216 701 911	36 218 018	252 919 929
Repurchase of shares	-	-	194 728	194 728	(290 728)	(96 000)
Total comprehensive income for the year	-	55 611 725	-	55 611 725	18 115 598	73 727 323
Dividends	-	(8 418 882)	-	(8 418 882)	(40 416)	(8 459 298)
Balance at 1 March 2016	17 181 391	244 548 432	2 359 659	264 089 482	54 002 472	318 091 954
Total comprehensive income for the year	-	50 055 908	-	50 055 908	22 168 565	72 224 473
Issue of shares	-	-	-	-	1 666 667	1 666 667
Increase of interest in subsidiary	-	-	(2 747 906)	(2 747 906)	(502 094)	(3 250 000)
Dividends	-	(10 308 834)	-	(10 308 834)	(27 612)	(10 336 446)
Balance at 1 March 2017	17 181 391	284 295 506	(388 247)	301 088 650	77 307 998	378 396 648
Repurchase of shares	-	-	158 495	158 495	(224 495)	(66 000)
Total comprehensive income for the year	-	46 342 871	-	46 342 871	14 711 966	61 054 837
Issue of shares	-	-	-	-	1 666 667	1 666 667
Dividends	-	(11 167 904)	-	(11 167 904)	(27 612)	(11 195 516)
Balance at 1 March 2018	17 181 391	319 470 473	(229 752)	336 422 112	93 434 524	429 856 636
Total comprehensive income for the year	-	24 746 380	-	24 746 380	14 885 424	39 631 804
Issue of shares	-	-	-	-	1 666 667	1 666 667
Dividends	-	(11 683 346)	-	(11 683 346)	(3 017 279)	(14 700 625)
Balance at 31 August 2018	17 181 391	332 533 507	(229 752)	349 485 146	106 969 336	456 454 482

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE PERIOD ENDING:

	Unaudited 31 August 2018 R'	Audited 28 February 2018 R'	Audited 28 February 2017 R'	Audited 29 February 2016 R'
Cash flow from operating activities				
Cash generated from operations	(28 237 710)	119 578 790	77 592 052	43 197 425
Investment income	3 886 487	6 210 481	5 179 077	4 800 390
Financing costs	(4 954 192)	(7 597 120)	(6 637 250)	(5 601 823)
Tax paid	(11 665 920)	(20 051 780)	(28 082 151)	(26 220 801)
Net cash flow from operating activities	(40 971 335)	98 140 371	48 051 728	16 175 191
Cash flow from investing activities				
Acquisition of property, plant and equipment	(20 898 611)	(48 620 519)	(28 439 351)	(36 298 377)
Acquisition of goodwill	(3 333 333)	(3 333 333)	(3 333 333)	-
Acquisition and increase of interest in subsidiaries	(1 666 667)	(1 666 667)	(4 916 667)	(13 613)
Goodwill realised/recovered	-	400 000	-	-
Disposal of shares held for investment	-	-	-	867 797
Disposal of property, plant and equipment	397 502	1 341 345	1 543 745	1 807 475
Net cash from investing activities	(25 501 109)	(51 879 174)	(35 145 606)	(33 636 718)
Cash flow from financing activities				
Shares repurchased	-	(66 000)	-	(96 000)
Shares issued	3 333 333	3 333 333	3 333 333	-
Proceeds from government grants	3 480 727	4 684 060	-	2 086 839
Procurement/(reimbursement) of long-term loans	(3 543 373)	(4 742 446)	173 899	(2 606 583)
Dividends paid	(14 700 625)	(11 195 516)	(10 336 446)	(8 459 298)
Net cash flow from financing activities	(11 429 938)	(7 986 569)	(6 829 214)	(9 075 042)
Total increase/(decrease) in cash and cash equivalents for the year	(77 902 382)	38 274 628	6 076 908	(26 536 569)
Cash and cash equivalents at the beginning of the year	62 168 473	23 893 845	17 816 937	44 353 506
Cash and cash equivalents at the end of the year	(15 733 909)	62 168 473	23 893 845	17 816 937



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