

# neema

— CAPITAL —

NEEMA CAPITAL (PTY) LTD | REG NO: 2014/119077/07 | PO BOX 2602, PARKLANDS, JOHANNESBURG, 2121  
DIRECTOR: ROWAN MCDONALD (MANAGING), HERMAN SCHOEMAN | CELL: 084 604 5479 |  
ROWAN@NEEMACAPITAL.CO.ZA

The Directors  
Orion Real Estate Limited  
3rd Floor, 26 Wellington Road  
Parktown  
Johannesburg, 2193  
South Africa

9 October 2019

Dear Directors,

**REPORT OF THE INDEPENDENT PROFESSIONAL EXPERT TO ORION REAL ESTATE LIMITED (“ORION” OR “THE COMPANY”) REGARDING A SCHEME OF ARRANGEMENT IN TERMS OF SECTION 114(1) OF THE COMPANIES ACT, NO. 71 OF 2008, BETWEEN THE COMPANY AND ITS SHAREHOLDERS AND THE SUBSEQUENT TERMINATION OF THE LISTING OF ITS SHARES ON THE MAIN BOARD OF THE JSE**

## **INTRODUCTION**

Neema Capital Proprietary Limited (“Neema Capital”) has been appointed by the independent board of directors of Orion (“Independent Board”) in accordance with section 114(2) of the Companies Act (No. 71 of 2008), as amended (“the Act”), to provide independent advice with regard to the provisions of section 114(4) (as read with section 115) of the Act, in respect of the termination of the listing of Orion’s shares on the main board of the JSE by way of a scheme of arrangement in terms of section 114(1) of the Act (“the Scheme”), proposed by the Independent Board between the Company and its shareholders, subject to the approval by eligible shareholders of all the resolutions required to implement the Scheme.

The Scheme involves Gmeiner Investment Holding Proprietary Limited (“the Offeror”) making an offer to all Orion shareholders to acquire all of their ordinary shares in the Company for a cash consideration of a minimum of 2 (two) cents per share (“Scheme Consideration”).

## **INDEPENDENT EXPERT REPORT REQUIRED**

The transaction is classified as a scheme of arrangement in terms of section 114 of the Act as Orion will be requiring approval of the Scheme by eligible shareholders (“the Transaction”). In terms of section 114(2) of the Act, as read together with Regulation 90 of the Companies Regulations, 2011 (“the Companies Regulations”), the Independent Board must retain an independent expert to compile a report on the whether the terms and conditions of the Transaction are Fair and Reasonable to the Orion shareholders.

## **SECTION 114(3) REQUIREMENTS**

As required in terms of section 114(3) of the Act, this report deals with the following:

- a. state all prescribed information relevant to the value of the securities affected by the proposed arrangement;
- b. identify every type and class of holders of the Company's securities affected by the proposed arrangement;
- c. describe the material effects that the proposed arrangement will have on the rights and interests of the persons mentioned in paragraph (b);
- d. evaluate any material adverse effects of the proposed arrangement against-
  - i. the compensation that any of those persons will receive in terms of that arrangement; and
  - ii. any reasonably probable beneficial and significant effect of that arrangement on the business and prospects of the Company;
- e. state any material interest of any director of the Company or trustee for security holders;
- f. state the effect of the proposed arrangement on the interest and person contemplated in paragraph (e); and
- g. include a copy of sections 115 and 164.

Please refer to Annexure 6 and Annexure 7 to the circular to Orion shareholders to be dated on or about 16 October 2019 and of which this letter forms part ("Circular") for copies of sections 115 and 164 of the Act, respectively.

Please refer to section 10 of the Circular for details of directors' interests in Orion.

## **RESPONSIBILITY**

Compliance with the Act is the responsibility of the directors. Our responsibility is to report on the terms of the Transaction.

## **EXPLANATION AS TO HOW THE TERMS "FAIR" AND "REASONABLE" APPLY IN THE CONTEXT OF THE TRANSACTION**

The assessment of the "fairness" of a transaction is primarily based on quantitative considerations. A transaction will generally be considered fair to shareholders if the consideration payable per share is equal to or greater than the fair value per share at the date of the Transaction.

The Transaction may be said to be fair to the Orion shareholders if the Scheme Consideration per share is greater than or equal to the fair value per share at the date of the transaction or unfair if the Scheme Consideration per share is less than the fair value per share at the date of the Transaction.

An assessment of reasonableness is generally based on factors other than quantitative considerations. Even though the offer price may differ from the fair value of the shares being acquired, a transaction may still be reasonable after considering other significant qualitative factors.

## DETAILS AND SOURCES OF INFORMATION

In arriving at our opinion, we have relied upon the following principal sources of information:

- The terms and conditions of the Transaction as contained in the Circular;
- Summarised audited results for Orion for the year ended 30 June 2018;
- Published unaudited results for the six months ended 31 December 2018;
- Consolidated management accounts for Orion for the 12-month period ended 30 June 2019;
- Property valuations prepared by Quadrant Properties (Pty) Ltd (“Quadrant”) in June 2018:
  - 72 Voortrekker Avenue, Edendale
  - 35 Symons Road, Auckland Park
  - 19 & 20 John Street, Selby
  - 60 Frere Street, Kensington B, Randburg
  - 296 Kent Avenue, Ferndale, Randburg
  - 1052 Schooner Avenue, Laser Park, Roodepoort
  - 1060 Schooner Avenue, Laser Park, Roodepoort
  - 1065 Ridge Road, Laser Park, Roodepoort
  - 32 - 36 Breytenbach Street, Lydenburg, Mpumalanga
  - 41 Fourteenth Street, Marlboro, Sandton
  - 98 - 100 Rietfontein Road, Primrose, Germiston
  - 189 Beyers Naude Drive, Northcliff, Randburg
  - Adjutant Road, Elma Park Extension 2, Edenvale
  - 84 -92 Rietfontein Road, Primrose, Germiston
  - 15 Henshall Street, Nelspruit, Mbombela
  - 593 Louis Botha Avenue, Bramley, Johannesburg
  - 101 Darwin Street, Wendywood, Sandton
- Discussions with Orion’s directors and management and their advisors regarding the rationale for the Transaction;
- Discussions with Orion’s directors and management regarding the financial information of the Company and its underlying investments;
- Discussions with Orion’s directors and management on prevailing market, economic, legal and other conditions which may affect underlying value; and
- Publicly available information relating to Orion and the sector in which it operates.

The information above was secured from:

- Directors and management of Orion and their advisers; and
- Third party sources, including information related to publicly available economic, market and other data which we considered applicable to, or potentially influencing the Company and its underlying investments.

## PROCEDURES

In arriving at our opinion, we have undertaken the following procedures and taken into account the following factors in evaluating the fairness and reasonableness of the Transaction:

- Reviewed the terms and conditions of the Transaction as contained in the Circular;
- Reviewed the financial and other information related to Orion and its underlying investments as detailed above;
- Reviewed the property valuation reports prepared by Quadrant;
- Held discussions with directors of Orion and their advisors and considered such other matters as we consider necessary, including assessing the prevailing economic and market conditions and trends;
- Evaluated the relative risks associated with Orion, its underlying investments and the industry in which it operates;
- Reviewed certain publicly available information relating to Orion and its underlying investments which we deemed to be relevant;
- Where relevant, representations made by management and/or directors were corroborated to source documents or independent analytical procedures were performed by us, to examine and understand the industry in which Orion and its underlying investments operate, and to analyse external factors that could influence Orion and its underlying investments;
- Held discussions with the directors and management of Orion and their advisors as to the long-term strategy and the rationale for the Transaction and considered such other matters as we considered necessary, including assessing the prevailing economic and market conditions and trends in the sector in which the Company and its underlying investments operate;
- Compiled a fair value calculation of Orion, utilising net asset value (“NAV”) methodology. This was based on Orion’s financial assets and financial liabilities and its attributable interest in its underlying investments prior to the implementation of the Transaction. This was then compared to the Scheme Consideration.

## ASSUMPTIONS

We arrived at our opinion based on the following assumptions:

- That all agreements that are to be entered into in terms of the Transaction will be legally enforceable;
- That the Transaction will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisers of Orion;
- That reliance can be placed on the property valuations prepared by Quadrant and that there have been no changes in any assumptions, since the valuation date, that could materially impact those valuations; and
- That reliance can be placed on the financial information of Orion, as provided by management, and its underlying investments.

## **APPROPRIATENESS AND REASONABLENESS OF UNDERLYING INFORMATION AND ASSUMPTIONS**

We satisfied ourselves as to the appropriateness and reasonableness of the information and assumptions employed in arriving at our opinion by:

- Conducting analytical reviews on the historical financial results and financial information, such as key ratio and trend analyses;
- Performing a review of the property valuation reports with reference to market research; and
- Determining the extent to which representations from management were confirmed by documentary evidence as well as our understanding of Orion and the economic environment in which the Company and its underlying investments operate.

## **LIMITING CONDITIONS**

This opinion is provided to the directors in connection with and for the purposes of the Transaction. The opinion does not purport to cater for each individual shareholder's perspective, but rather that of the general body of Orion's shareholders.

Individual shareholders' decisions regarding the Transaction may be influenced by such shareholders' particular circumstances and accordingly individual shareholders should consult an independent adviser if in any doubt as to the merits or otherwise of the Transaction.

We have relied upon and assumed the accuracy of the information provided to us in deriving our opinion. Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of our opinion, whether in writing or obtained in discussion with management, by reference to publicly available or independently obtained information. While our work has involved an analysis of, inter alia, the annual financial statements, and other information provided to us, our engagement does not constitute an audit conducted in accordance with generally accepted auditing standards.

Where relevant, forward-looking information of Orion and its underlying investments relates to future events and is based on assumptions that may or may not remain valid for the whole of the forecast period. Consequently, such information cannot be relied upon to the same extent as that derived from audited financial statements for completed accounting periods. We express no opinion as to how closely the actual future results of Orion and its underlying investments will correspond to those projected. We have however compared the forecast financial information to past trends as well as discussing the assumptions inherent therein with management.

We have also assumed that the Transaction will have the legal consequences described in discussions with, and materials furnished to us by representatives and advisers of Orion and we express no opinion on such consequences.

Our opinion is based on current economic, regulatory and market as well as other conditions. Subsequent developments may affect the opinion, and we are under no obligation to update, review or re-affirm our opinion based on such developments.

## **INDEPENDENCE, COMPETENCE AND FEES**

We confirm that Neema Capital meets the requirements as set out in section 114(2) of the Act. We also confirm that we have the necessary qualifications and competence to provide this opinion.

Furthermore, we confirm that our professional fees of R105,000, payable in cash, are not contingent upon the success of the proposed Transaction.

## VALUATION APPROACH

Orion is a property investment company. The valuation of Orion has been based upon an aggregation of Orion's financial assets and financial liabilities and its attributable interest in each of its investments.

The valuation was performed taking cognisance of risk and other market and industry factors affecting the business. Additionally, sensitivity analyses were performed considering key value drivers.

Consideration was made to the current Price / NAV multiples for relating to Orion as well as other public companies in the sector in which it operates. This analysis showed the following:

• Maximum price / NAV ratio	1.17
• Minimum price / NAV ratio	0.21
• Average price / NAV ratio	0.74
• Average price / NAV ratio for REITS smaller than R5bn market capitalisation	0.67
• Orion price / NAV based on share price	0.61

Key value drivers to the NAV method of Orion are as follows:

### Internal:

- Fair market value of investment property assets;
- Realisable value of shareholder loans;
- Realisable value of working capital assets; and
- Fair market value of the total liabilities based on the outstanding amounts payable.

### External:

- Market factors impacting the demand for property assets.

Sensitivity analyses were conducted, where practical, using key value drivers which may materially impact the value of the Orion. The results of these are set out below.

- Fair value of investment property assets: A 5% fluctuation in the fair value of investment property would cause the value per share of Orion to fluctuate by 6.14%.
- Fair value of shareholder loans: A 5% fluctuation in the realisable value of shareholder loans would cause the value per share of Orion to fluctuate by 0.29%.
- Realisable value of working capital assets: A 5% fluctuation in the realisable value of working capital assets would cause the value per share of Orion to fluctuate by 0.47%
- Fair market value of total liabilities: A 5% fluctuation in the fair market value of total liabilities would cause the value per share of Orion to fluctuate by 1.97%.
- Price to NAV multiple: A 5% fluctuation in the Price / NAV multiple would cause the value per share of Orion to fluctuate by 7.94%.

## VALUATION RESULTS

In undertaking the valuation exercise above, we determined a valuation range of between 48.52 cents per share to 53.37 cents per share for Orion with a most likely valuation per share of 50.95 cents per share prior to the implementation of the Transaction.

## REASONABLENESS OF THE TRANSACTION

We have assessed the terms of the Transaction with reference to normal market-related practice. Due to the fact that Orion is currently suspended, a current volume weighted average price ("VWAP") calculation could not be performed. The last traded share price was, however, 58c. The Scheme Consideration represents a 96.6% discount to the last traded price. We have found this to be a further indication that the Scheme will have an adverse effect on the shareholders of Orion if it is accepted.

## OPINION

Neema Capital has considered the terms and conditions of the Transaction and, based on and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Transaction, based on quantitative considerations, are unfair to the shareholders of Orion.

Based on qualitative factors, we are of the opinion that the terms and conditions of the Transaction are unreasonable for the shareholders of Orion.

Our opinion is necessarily based upon the information available to us up to 9 October 2019, including in respect of the financial information as well as other conditions and circumstances existing and disclosed to us. We have assumed that all conditions precedent, including any material regulatory and other approvals or consents required in connection with the Transaction have been fulfilled 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.

Yours faithfully



R McDonald  
Director  
**Neema Capital Proprietary Limited**