



**VKB BELEGGINGS (PTY) LTD**

**MEMORANDUM TO  
SHAREHOLDERS**

**CONVERSION OF VKB BELEGGINGS  
(PTY) LTD TO A PUBLIC COMPANY  
AND LISTING OF A NEW CLASS OF  
NEGOTIABLE, NON-REDEEMABLE  
PREFERENCE SHARES (CLASS 5  
PREFERENCE SHARES)**



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**To : The Shareholders of VKB Beleggings (Pty) Ltd**  
**From : The Board of Directors**  
**Date : 1 June 2021**  
**RE : CONVERSION OF VKB BELEGGINGS (PTY) LTD TO A PUBLIC COMPANY AND LISTING OF A NEW CLASS OF NEGOTIABLE, NON-REDEEMABLE PREFERENCE SHARES (CLASS 5 PREFERENCE SHARES)**

## 1. PROCESS

**This document is a discussion document for shareholders' input. The final document will be circulated as part of the Notice of the Annual General Meeting of Shareholders of 2021, which will take place on 15 September 2021.**

The proposed resolutions will be considered at the Annual General Meeting of Shareholders.

If approved as such, the resolutions together with the new Memorandum of Incorporation of VKB Beleggings Limited will be submitted and registered with the Registrar of Companies (CIPC). Thereafter, the Class 5 preference shares will be listed on a stock exchange as negotiable. The course of the process will be communicated to the shareholders throughout.

**SHAREHOLDERS ARE REQUESTED TO CAREFULLY STUDY THIS DOCUMENT AND CONSULT WITH THEIR FINANCIAL AND OTHER PROFESSIONAL ADVISORS REGARDING THE CONTENT AND IMPLICATIONS OF THE PROPOSALS CONTAINED HEREIN. SHAREHOLDERS WHO ARE UNSURE ABOUT THEIR POSITION ARE ENCOURAGED TO CONTACT VKB THEMSELVES, OR THROUGH HIS/HER ADVISORS. THE EXECUTIVE DIRECTOR: FINANCE VKB GROUP (MR MJ MITTERMAIER – 058 863 8270, E-MAIL ADDRESS: [markusm@vkb.co.za](mailto:markusm@vkb.co.za)) MAY BE CONTACTED IN THIS REGARD. THE BOARD OF DIRECTORS WELCOMES ANY INPUT, WHICH MUST BE SUBMITTED TO MR MITTERMAIER BY NO LATER THAN 30 JUNE 2021.**

## 2. EXECUTIVE SUMMARY

The Memorandum of Incorporation (“Memorandum”) of VKB Beleggings (Pty) Ltd (“VKB Beleggings”/“VKB”) contains the agreement between VKB and its shareholders, as accepted and approved by the shareholders. VKB is operated in accordance with the provisions contained in the Memorandum and the Companies Act, Act No. 71 of 2008 (“the Act”).

Over the past few years, the shareholders of VKB have requested that mechanisms be investigated to unlock value for the shareholders at an earlier stage. Various actions have been taken in this regard, including the declaration of dividends and the creation of Class 4 preference shares whereby shareholders are afforded the opportunity to keep their funds in the company after redemption of Class 2 shares.

Further requests were subsequently received from shareholders who expressed the need to convert their preference shares into cash earlier than the redemption date and/or to expose it to the market. The Board investigated the matter and, after considering several alternatives, proposed that a class of negotiable preference shares within VKB Beleggings would be the preferred option to meet this need, for the reasons set out herein. The Board further requested that the terms and implications be presented to the shareholders at the Information Meetings during September 2020 and the subsequent Annual General Meeting. The shareholders provided input and supported the proposal to such an extent that the Board of Directors wholeheartedly recommends that VKB Beleggings be converted to a public company, VKB Beleggings Limited, within which a class of negotiable shares is created with the benefits as set out herein.

VKB Beleggings is currently a private company and its shares are not negotiable. To provide for the creation of a class of negotiable, listed shares, the company must be converted to a public company. Such conversion involves the adoption and approval of a new Memorandum. For this purpose, the Memorandum and the Act require that special resolutions be taken and approved by 75% of the total voting rights that can be exercised over the resolutions. The terms of the current Class 2 and 3 shares must also be amended to provide for the relevant classes of shares to be convertible into negotiable Class 5 preference shares. The option to convert will be offered to the relevant shareholders on a biannual basis. Conversion of shares is irreversible (the converted Class 2 or 3 shares cannot be taken up again).

The practical implication of this proposal is that the existing classes of shares in VKB Beleggings will essentially be retained as they are at present, and the additional option will be offered to shareholders for a portion, or all their Class 2 and 3 shares/“members’ funds”, to be converted into shares that trade freely. Only the negotiable Class 5 preference shares will be listed on a stock exchange. The Class 5 preference shares are issued to shareholders who decide to convert their Class 2 and 3 shares. The value of the negotiable shares will be supported by the association with VKB as an established, stable-performing group of companies. The Class 5 preference shares should therefore be an attractive option for investors, based on the dividend flow that the investor buys. Any member of the public, including VKB’s shareholders and other investors, may at any time purchase any amount of Class 5 preference shares offered for sale on the stock exchange where it will trade. The expectation is that the Class 5 preference shares will offer a fair investment option due to the dividend rate and VKB Beleggings’ continued good performance. Buyers of these shares can therefore build a portfolio of these shares over time. Class 5 preference shares will only be acquired by conversion of existing Class 2 and 3 shares, or by the purchase on the stock exchange, of these shares offered for sale by its holders. Only Class 5 preference shares will be negotiable. The rest of VKB Beleggings’ shares remain non-negotiable and carry all the voting rights and consequently the control of VKB. Only if the Class 1, 2 and 3 shareholders agree with a special resolution of 75%, a resolution can be taken that may affect the future control of VKB. This is also currently the situation.

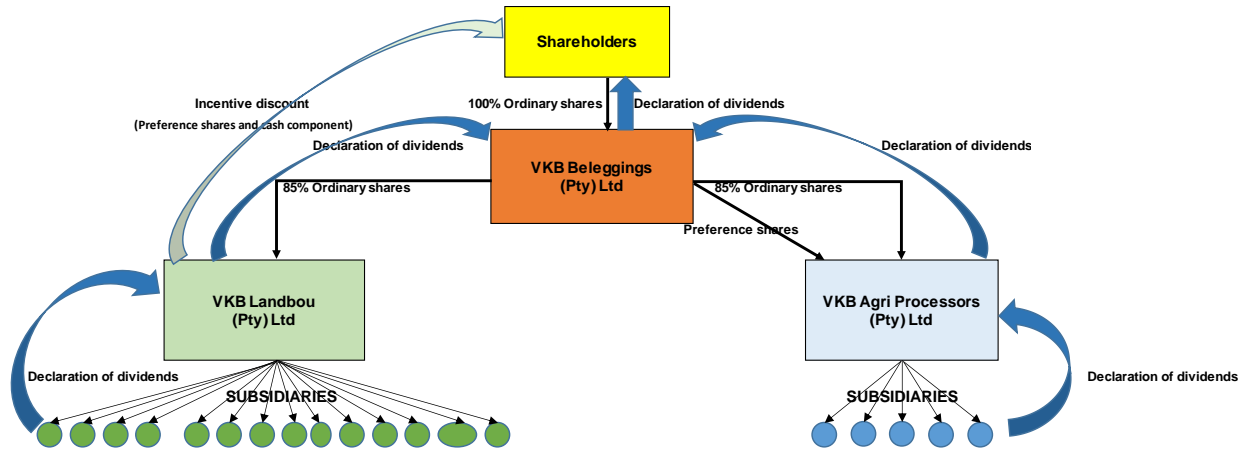
None of the existing or future shares in VKB Beleggings form in any direct or indirect way part of any remuneration of directors, staff, contractors or consultants.

Shareholders of VKB Beleggings will after the conversion continue to do business with VKB Landbou (Pty) Ltd ("VKB Landbou") as presently, and annually receive incentive discounts based on the extent of their business done with VKB Landbou and certain subsidiaries. These incentive discounts will still be awarded in the future through the payment of a cash component and the issuance of Class 2 redeemable shares in VKB Beleggings. Shareholders will then be able to exercise the option to convert their Class 2 shares or a portion thereof into Class 5 non-redeemable preference shares that trade freely. Class 5 preference shares will have a dividend rate of 40% of the prevailing prime lending rate applicable on the declaration date. The holder of the shares' position regarding return on investment is therefore not uncertain, as he is essentially buying a dividend stream, based on the nominal value of R1,00 per share (subject to the provisions of the Act, which include that the company complies with the solvency and liquidity test ("solvency and liquidity")). However, Class 5 shareholders' voting rights are limited to matters that affect the rights of Class 5 preference shares and they will therefore have no influence on the management of VKB Beleggings, its continued existence or amendment of its Memorandum.

The proposed conversion and listing hold no disadvantage for VKB except for the small cash flow implication due to the increased dividend according to the new model, and the listing costs. The holders of its ordinary/membership shares will still only be bona fide producers to whom the business belongs, as has been the case for the past more than 100 years, and the control over the business remains with the existing shareholders in relation to their Class 1, 2 and 3 shares.

<b>IMPLICATIONS OF THE PROPOSAL</b>	
<b>Benefits – VKB</b>	<b>Benefits – Shareholder</b>
<ul style="list-style-type: none"> <li>▪ Continue to be producer business as for the past 101 years.</li> <li>▪ Trading of shares takes place outside VKB.</li> <li>▪ VKB does not have to utilise own funds for share redemptions.</li> <li>▪ Strengthens VKB's balance sheet and improves ability to do business.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Can convert and monetise Class 2 and 3 shares (in part or in full).</li> <li>▪ Retains voting rights in VKB in respect of shares that have not been converted.</li> <li>▪ Still do business with VKB Landbou and subsidiaries as before.</li> <li>▪ Continue to receive incentive discounts each year in the form of a cash component and new Class 2 shares that can be converted.</li> <li>▪ Can cede Class 5 preference shares to VKB Landbou for production financing.</li> <li>▪ Class 5 preference shares will have a dividend rate of 40% of prime lending rate and dividend is calculated on face value (R1,00).</li> <li>▪ Discretion to convert/participation in Class 5 preference shares is voluntary.</li> <li>▪ Distribution from reserves can be done more frequently.</li> </ul>
<b>Disadvantages – VKB</b>	<b>Disadvantages – Shareholder</b>
<ul style="list-style-type: none"> <li>▪ Minimal cash flow implication due to increased dividend and listing costs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conversion of shares is irreversible.</li> <li>▪ Security value of Class 5 preference shares based on market value, which is likely to be less than the security value of Class 2 and 3 shares.</li> <li>▪ Class 5 preference shares have no voting rights on matters over which Class 1, 2 and 3 shareholders in VKB have voting rights.</li> <li>▪ In case of liquidation – right to share in surplus limited to R1,00 per share.</li> </ul>

### 3. VKB'S STRUCTURE



A total of 4 605 bona fide producers each own 5 000 ordinary shares in VKB Beleggings. The ordinary shares, together with the Class 2, 3 and 4 shares, bring the current share capital in VKB Beleggings to R2 146 487 000 (as at 25 May 2021).

VKB Beleggings is the holding company of the VKB Group. VKB Beleggings owns 85% of the ordinary shares in VKB Landbou and 85% of the ordinary shares in VKB Agri Processors (Pty) Ltd (“VKB Agri Processors”). These two companies in turn are the respective holding companies of a number of subsidiaries. VKB Beleggings also holds cumulative, redeemable preference shares in VKB Agri Processors to the value of R797 million, carrying a return rate of 10%.

Agricultural producers take up production financing at VKB Landbou and do their business mostly with VKB Landbou and its subsidiaries. As an incentive for future business, VKB Landbou annually awards incentive discounts to its customers from its profits, which are paid through a cash component and the issuance of Class 2 shares in VKB Beleggings.

Shareholders cede their Class 2 and 3 shares in VKB Beleggings to VKB Landbou as security for production financing, where applicable.

VKB’s industries are subsidiaries of VKB Agri Processors. These subsidiaries declare dividends to VKB Agri Processors, which in turn service VKB Beleggings’ preference shares at a rate of 10%, and can also declare dividends to the holders of its ordinary shares, of which VKB Beleggings holds 85%. VKB Beleggings’ model therefore entails that it receives preference dividends as well as ordinary dividends and in turn declares dividends to its shareholders, being the producers of VKB.

## 4. VKB BELEGGINGS' BUSINESS MODEL

VKB Beleggings' business model and current Memorandum provide for the following classes of shares:

### 4.1 CLASSES OF SHARES

**CLASS 1** Ordinary shares, each shareholder (bona fide producers) owns 5 000 ordinary shares and has one vote per share.

**CLASS 2**

*The shareholder does business with VKB, mainly VKB Landbou and its subsidiaries. At the end of the financial year, VKB Landbou declares from its profit a discount to its customers as an incentive for future business. This discount is paid through a cash component and by the issuance of Class 2 shares in VKB Beleggings.*

Voting, redeemable shares issued in relation to incentive discounts awarded, provided that, after a portion of the incentive discounts has been paid out in cash, for the balance one Class 2 share be issued in VKB Beleggings for every R1,00 incentive discount awarded. The Class 2 shares will be redeemed by VKB Beleggings, preferably not later than 15 years after issuance thereof, taking into account the business's ability and needs. The Class 2 shares of a shareholder who is 55 years or older at the time of the awarding of a particular year's incentive discount will be redeemed at age 70 years, subject to a minimum period of five years. Each Class 2 share carries one vote.

**CLASS 3**

*The company retains a portion of its profits annually, which builds up over time as reserves. When the company's balance sheet justifies it, it distributes these reserves to shareholders by way of the issuance of Class 3 shares, as VKB did in 2012 with the issuance of the current Class 3 shares.*

Voting, redeemable shares awarded to shareholders during 2012 from reserves of the former Vrystaat Co-operative Limited and Northern Transvaal Co-operative Limited. For every R1,00 reserves allocated to a shareholder, one Class 3 share in VKB Beleggings was issued to the shareholder. The Class 3 shares will be redeemed by VKB Beleggings, preferably not later than 15 years after issuance thereof (2027), taking into account the business's ability en needs. Each Class 3 share carries one vote.

**CLASS 4**

*At the end of the 15-year redemption period of Class 2 and 3 shares, the option is offered to the holders of these shares not to have it redeemed by VKB, but to convert it into Class 4 preference shares. VKB compensates the holders of Class 4 preference shares at an attractive dividend rate for the share capital retained and utilised in the company.*

Participating, non-voting, redeemable preference shares to make provision therefor that shareholders whose Class 2 and 3 shares are redeemed, may exercise the option to, for the redemption value of such shares, subscribe for Class 4 preference shares, which shares rank pari passu with Class 2 shares in all aspects, except for a higher dividend rate. The shares are redeemable with 30 days' notice to the company, who must then redeem it at the face value thereof.

**Table 1: Current classes of shares**

Current shares	Term	Dividend	Quantity	Value	Voting power
<b>Class 1 ordinary shares</b> <div style="border: 1px solid black; background-color: #e0ffff; padding: 2px; width: fit-content; margin: 5px auto;">Membership</div>	Unlimited (as long as membership continues)	None	5 000 per shareholder	R5 000 per shareholder (5 000 @ R1,00 each = R5 000)	1 vote per share
<b>Class 2 voting, redeemable shares</b> <div style="border: 1px solid black; background-color: #e0ffff; padding: 2px; width: fit-content; margin: 5px auto;">Incentive discounts/ "membership funds"</div>	<ul style="list-style-type: none"> <li>▪ Maximum 15 years, minimum 5 years</li> <li>▪ Redeemed by VKB Beleggings after 15 years</li> </ul>	No fixed dividend, Board of Directors has discretion to pay dividend or interest	Issued based on incentive discount awarded in VKB Landbou at 1 share for every R1,00 incentive discount (after payment of cash component)	R1,00 per share	1 vote per share
<b>Class 3 voting, redeemable shares</b> <div style="border: 1px solid black; background-color: #e0ffff; padding: 2px; width: fit-content; margin: 5px auto;">Reserves</div>	<ul style="list-style-type: none"> <li>▪ No longer than 15 years (2027)</li> <li>▪ Redeemed by VKB Beleggings after 15 years</li> </ul>	No fixed dividend, Board of Directors has discretion to pay dividends or interest	Reserves awarded in 2012	R1,00 per share	1 vote per share
<b>Class 4 participating, non-voting, redeemable preference shares</b> <div style="border: 1px solid black; background-color: #e0ffff; padding: 2px; width: fit-content; margin: 5px auto;">Class 2 and 3 shares converted after 15 years</div>	<ul style="list-style-type: none"> <li>▪ Redeemable with 30 days' notice</li> </ul>	4%	Issued on the face value of Class 2 and 3 shares	R1,00 per share	Non-voting



## 5. IMPLICATIONS OF CONVERSION OF VKB BELEGGINGS TO A PUBLIC COMPANY

### 5.1 SHAREHOLDERS

The needs of the shareholders are diverse and depend on each one's unique personal and business circumstances. To provide for the need to encash shares at an earlier stage and/or expose it to the market, a separate class of negotiable preference shares must be created (Class 5 preference shares). Only this specific class of shares will be listed on a stock exchange. The rest of VKB's shares are essentially retained as at present (refer Table 2). Class 5 preference shares afford shareholders the opportunity, in their sole discretion, to convert their existing Class 2 and 3 shares into Class 5 preference shares during their 15-year redemption term, and to hold or sell the latter at market value should the need exist to monetise the shares due to, for example, financial pressure, cessation of farming, illness, immigration, etcetera. Class 5 preference shares have an annual dividend rate of 40% of the prevailing prime lending rate applicable on the declaration date, on the face value of the share (R1,00), subject to the solvency and liquidity of the company.

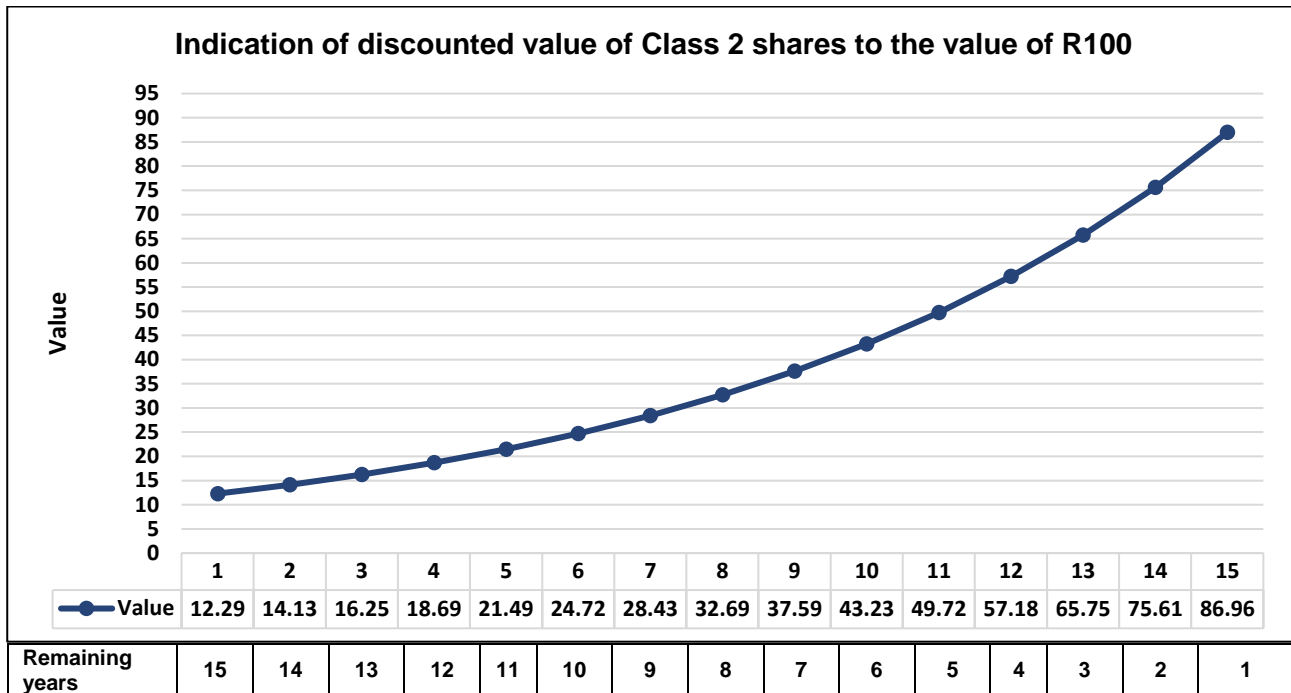
The market will determine the value of the Class 5 preference shares, given the dividend rate. The market value of the Class 5 preference shares will likely be higher than the discounted value at which VKB redeems Class 2 and 3 shares, but will be lower than its face value. When producers take up financing at VKB, VKB uses the face value of the Class 2 and 3 shares (R1,00 per share) as security value. Producers who rely on their shares as security are therefore not advised to convert their shares, unless they can offer alternative security. However, in cases where a shareholder is under pressure to monetise a portion of his/her shares, Class 5 preference shares provide the opportunity to do so. Even where a shareholder wants to expand his/her operations, a portion of his/her shares can be monetised and used for such purpose (for example, shares younger than five years that still have more than 10 years before the expiry of the redemption term).

As indicated in Chart 1, the discounted value of Class 2 shares increases as the 15-year term progresses.

To the extent that a shareholder chooses to convert his/her shares into Class 5 preference shares, the shareholder forfeits his/her voting rights within VKB and his/her voting rights as holder of Class 5 preference shares are thereafter limited to matters that affect the rights of Class 5 preference shares. However, he/she remains a shareholder with voting rights in respect of the other shares he/she still owns in VKB (as applicable). All Class 1, 2 and 3 shares will still belong to bona fide producers. Incentive discounts will in future, as at present, be awarded to clients based on the extent of the client's business with VKB Landbou and certain subsidiaries, and such discount will be made through payment of a cash component and issuance of Class 2 shares in VKB Beleggings.

It is the responsibility of each shareholder to consider his/her individual position, taking into account, amongst others, the value and redemption term of his/her shares. The current value of shares that are closer to the expiry of the 15-year term, taking into account discounting, will probably be higher than the market value of the Class 5 preference shares. Shares that still have a long time before they are redeemed, will probably have a lower discounted value than the current market value of the Class 5 preference shares (refer Chart 1).

**Chart 1: Indication of discounted value of Class 2 shares to the value of R100 over the term of 15 years**



Class 2 shares are redeemed by the company after a maximum period of 15 years. Should a shareholder still own the Class 2 shares after this period, he/she is offered the option to convert the shares into Class 4 redeemable preference shares. The Class 4 preference shares will carry a dividend rate of 50% of the prime lending rate. This attractive rate serves as motivation for shareholders to keep their funds in the company. It is redeemable at any time with 30 days' notice to the company, who must then redeem it at the face value thereof.

Shareholders are advised to consult with their financial and other professional advisers regarding the content and implications of this proposal for each individual shareholder. Shareholders who are uncertain about their position, are encouraged to contact VKB either themselves, or through his/her advisers. In this regard, the Executive Director: Finance VKB Group (Mr MJ Mittermaier – 058 863 8270, e-mail address: markusm@vkb.co.za) can be contacted.

## 5.2 VKB

The Class 5 preference shares hold definite benefits for VKB Beleggings. The trading will take place outside the company and the company will therefore not have to utilise its own funds to redeem shares, as is currently the case. Temporary capital is converted into permanent capital, which strengthens VKB's balance sheet and thus improves its ability to do business. This will enable VKB to distribute reserves to its shareholders more frequently, as in the case of the existing Class 3 shares, due to the fact that the Class 5 preference shares are non-redeemable and the company therefore does not have to utilise its cash to redeem its own shares.

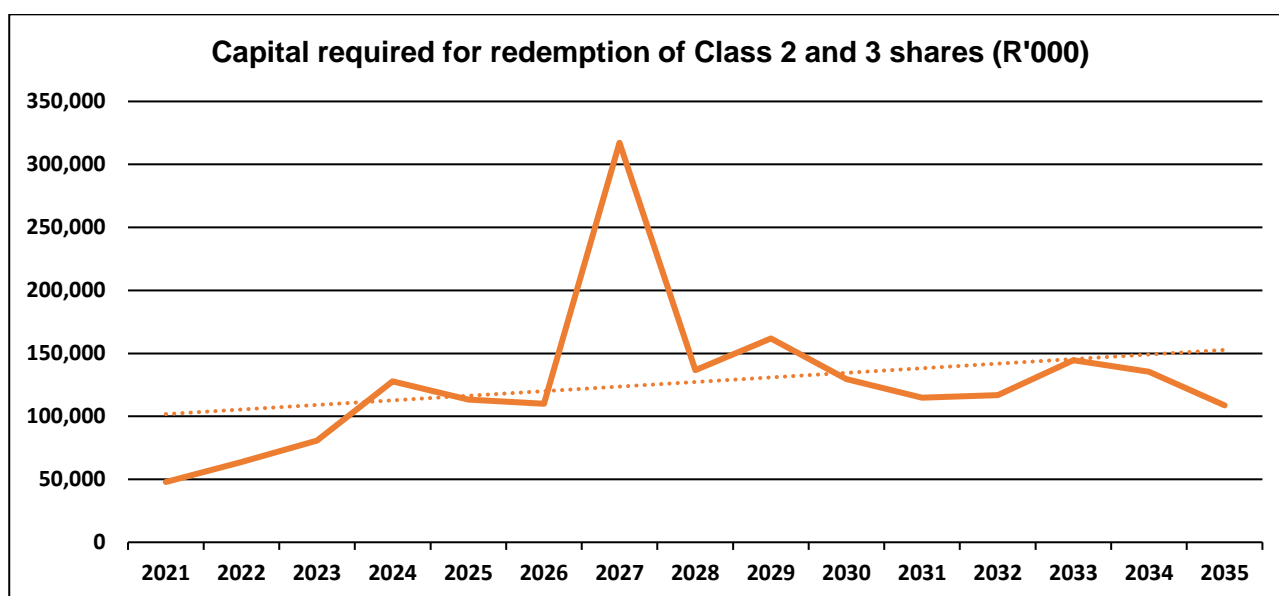
The cash flow implication due to the increased dividend according to the new model, and the listing cost, is minimal.

If a large number of shareholders exercise the option to convert their Class 2 and 3 shares into Class 5 preference shares, it will have no effect on the control of VKB and the possible future amendment of the Memorandum, as it is still only the shareholders of Class 1, 2 and 3 shares who can amend the Memorandum of VKB Beleggings Limited with the approval of a special resolution by 75% of these total voting powers. This excludes the shares that have been converted into Class 5 preference shares and no longer have voting rights. The voting rights in respect of Class 5 preference shares are limited to the matters affecting the rights of this class of shareholders. Class 5 preference shares

and the trading thereof will therefore not have an influence on VKB's ownership or on the management and future of VKB. The buyer of Class 5 preference shares only buys a dividend stream and has no say in the management and future of VKB. Class 5 preference shares will only be acquired through conversion of existing Class 2 and 3 shares, or through the purchase of available shares offered for sale on the stock exchange. Only the Class 5 preference shares will be negotiable. The rest of VKB Beleggings' shares still remain non-negotiable and carry all the voting rights and consequently the control of VKB. Only if the Class 1, 2 and 3 shareholders agree to a special resolution (of 75%), can a decision be made that affects the future control of VKB. This is also currently the case.

The terms of the current Class 2 and 3 shares stipulate that the company must redeem these shares by no later than 15 years after issuance thereof. Every year, new Class 2 shares are issued and shares that have reached the end of the redemption term are redeemed by VKB Beleggings (besides deceased estates, resignations, etcetera). The company must therefore make provision to redeem rotating Class 2 shares each year. The company utilises its own funds for this purpose. As the business grows and issues more Class 2 shares, this obligation increases (refer Chart 2: Capital required for redemption of Class 2 and 3 shares). As a result, less capital is available in the company. If shareholders convert their Class 2 and 3 shares into Class 5 preference shares, VKB has no further obligation to redeem these shares and consequently it will alleviate this financial burden on the company. The capital therefore remains within the company permanently and the more capital within VKB, the stronger its balance sheet and the better it can carry out its operations. A strong balance sheet is inevitably to the advantage of the shareholders of the company. Each shareholder will therefore also have the luxury of constantly considering his/her own position within VKB and, with the best of all the worlds at his/her disposal, exercising appropriate choices.

**Chart 2: Capital required for redemption of Class 2 and 3 shares (R'000)**



The conversion to a public company and listing of the proposed Class 5 preference shares imply that the company will be subjected to the statutory provisions applicable to public companies, including reporting and listing requirements. VKB already complies with these to a large extent.

The benefits of the conversion and listing for VKB and its shareholders justify the costs involved therewith.

## 6. PROPOSED CLASS 5 NEGOTIABLE PREFERENCE SHARES

The shareholder of a Class 5 negotiable preference share merely holds the promise of a dividend stream. The value of the proposed Class 5 negotiable preference shares will be determined by supply and demand. The shares will trade in the free market and the trading will therefore not be limited to bona fide producers. Existing shareholders of VKB Beleggings, as well as members of the public and institutional investors, will at any time be able to purchase any quantity of the shares offered for sale, on the stock exchange where it trades. VKB is already receiving inquiries in this regard and it is expected that the Class 5 preference shares will offer a fair investment option due to the dividend rate and VKB's continued good performance.

The sustained and viable management of the VKB Group is already creating and will also in the future create sufficient confidence in the market and make the investment in Class 5 preference shares attractive to investors. The tradability of the preference shares is influenced by several factors, including liquidity, rate of return and transparency. There should be sufficient incentive for investors to take up the shares. Liquidity is related to the transaction value and trading frequency of a share and is important for investors. A fair, constant return at a low risk is likewise important for investors in preference shares. The investor will constantly want to ensure that the underlying value of the return as well as the capital value of the investment is reasonably predictable and assured, thus a safe investment with a stable dividend rate, based on the performance of the underlying company and the associated probability that the dividend flow will be declared sustainably, as well as the shareholders' ability to monitor and analyse it. Without transparency about the underlying ability and financial position of the company that issues the share and therefore must deliver the return, it is almost impossible to determine the risk of non-performance by the company.

## 7. TERMS AND CONDITIONS OF THE CLASS 5 NEGOTIABLE PREFERENCE SHARES

The terms of the proposed new class of negotiable shares (Class 5 preference shares) that will be listed on a stock exchange are as follows:

- The shares will be negotiable on the stock exchange where it is listed.
- The shares will be non-voting (voting rights limited to matters affecting the rights thereof).
- The shares will be non-redeemable (are not redeemed by the company).
- The shares will carry a dividend rate of 40% of the prevailing prime lending rate applicable on the declaration date, subject to the solvency and liquidity of the company. The dividend is calculated on the face value (R1 – one Rand per share) of the shares.
- The dividend will be non-cumulative.
- Declaration and payment of dividends will be considered biannually.
- Existing shareholders will be offered the opportunity biannually to convert existing Class 2 and 3 shares into Class 5 preference shares.
- In the highly unlikely case of liquidation of the company, the right of the Class 5 preference shareholders to share in the surplus is limited to R1,00 per share (where Class 2 and 3 shareholders can share in the surplus above R1,00). The shares therefore have no preferential right in the event of liquidation.
- The shares can be ceded to VKB Landbou as security for production financing, at the market value thereof. Where existing Class 2 and 3 shares serve as security, equivalent security must be offered before the Class 2 and 3 shares can be converted into Class 5 preference shares.
- There is a difference in the rate of return of Class 4 preference shares and Class 5 preference shares, otherwise the Class 5 preference shares rank pari passu with the Class 4 preference shares.

## **8. AMENDMENT OF TERMS OF CLASS 2 AND 3 SHARES**

The terms of the current Class 2 and 3 shares in the Memorandum must be amended to make it convertible into Class 5 preference shares. Conversion is irreversible (cannot subscribe for Class 2 or 3 shares again).

## **9. AMENDMENT OF TERMS OF CLASS 4 PREFERENCE SHARES**

The current rate of return applicable to Class 4 preference shares is 4%. Since it makes sense to link the return of all the classes of shares to the prime lending rate, it is recommended that the rate of return applicable to Class 4 preference shares be amended to 50% of the prime lending rate applicable on the declaration date.

## **10. IMPLICATION IF RESOLUTIONS ARE NOT APPROVED**

If the shareholders do not approve the proposed resolutions contained herein at the forthcoming Annual General Meeting of Shareholders, the current model is continued with, according to which Class 2 and 3 shares have a redemption term of 15 years and can only be redeemed earlier than the redemption term at the discounted value thereof and/or at the discretion of the Board of Directors. It will therefore deprive shareholders of the opportunity to unlock more and faster value for their shares and a shareholder who is under financial pressure will therefore, unfortunately, not be able to monetise a portion of his/her Class 2 and/or 3 shares to improve his/her position. It will also force VKB to utilise its own cash to redeem shares in exceptional circumstances and thus reduce the future available capital within the company accordingly, which capital is mainly used to finance producers. The further implication is that there will then also be no opportunity for investors, including the public, producers or any other institutional institution, to buy shares in VKB Beleggings as an investment.

## 11. PROPOSED FUTURE CLASSES OF SHARES

Upon completion of the proposed conversion of VKB Beleggings to a public company and the listing of the Class 5 preference shares, the respective classes of shares will look as follows (none of the existing or future shares in VKB Beleggings form in any direct or indirect manner part of any remuneration of directors, staff, contractors or consultants):

**Table 2: Future classes of shares**

Current shares	Term	Dividend	Quantity	Value	Voting rights
<b>Class 1 ordinary shares</b>	<ul style="list-style-type: none"> <li>▪ Unlimited (as long as membership continues)</li> </ul>	None	5 000 per shareholder	R5 000 per shareholder (5 000 @ R1,00 each = R5 000)	1 vote per share
<b>Class 2 voting, redeemable, convertible shares</b>	<ul style="list-style-type: none"> <li>▪ Maximum 15 years, minimum 5 years</li> <li>▪ No fixed term, convertible into Class 5 preference shares</li> <li>▪ Redeemed by VKB Beleggings</li> </ul>	30% of prime lending rate (subject to the discretion of the Board of Directors)	Issued based on incentive discount awarded in VKB Landbou at 1 share for every R1,00 incentive discount (after payment of cash component)	R1,00 per share	1 vote per share
<b>Class 3 voting, redeemable, convertible shares</b>	<ul style="list-style-type: none"> <li>▪ No more than 15 years (2027)</li> <li>▪ Convertible into Class 5 preference shares.</li> </ul>	No fixed rate	Reserves awarded in 2012	R1,00 per share	1 vote per share
<b>Class 4 participating, non-voting, redeemable preference shares</b>	Redeemable with 30 days' notice	50% of prime lending rate	Only Class 2 and 3 shares that are redeemable, can be converted into Class 4 preference shares	R1,00 per share	Non-voting
<b>Class 5 non-voting, negotiable, cumulative, non-redeemable preference shares</b>  <div style="border: 1px solid black; background-color: #e0ffff; padding: 2px; display: inline-block; margin-top: 5px;">Trading</div>	<ul style="list-style-type: none"> <li>▪ Infinitely</li> <li>▪ Negotiable</li> </ul>	40% of prime lending rate	<ul style="list-style-type: none"> <li>▪ Any number can be subscribed for/be traded</li> <li>▪ Class 2 and 3 shares can be converted into Class 5 preference shares</li> </ul>	Market value	Non-voting

## 12. RECOMMENDATION

That:

Taking into account the foregoing explanation, the Board of Directors can recommend with confidence that the following resolutions be submitted to VKB Beleggings (Pty) Ltd's shareholders for approval at the next Annual General Meeting of Shareholders, which will take place on 15 September 2021:

- 1) VKB Beleggings (Pty) Ltd be converted to a public company, VKB Beleggings Limited.
- 2) A new class of negotiable preference shares (Class 5 preference shares) in VKB Beleggings Limited be created with the following terms:
  - The shares will be negotiable on the stock exchange where it is listed.
  - The shares will be non-voting (voting rights limited to matters affecting the rights thereof).
  - The shares will be non-redeemable (will not be redeemed by the company).
  - The shares will carry a dividend rate of 40% of the prevailing prime lending rate applicable on the declaration date, subject to the solvency and liquidity of the company. The dividend is calculated on the face value (R1 – one Rand per share) of the shares.
  - The dividend will be non-cumulative.
  - Declaration and payment of dividends will be considered biannually.
  - Existing shareholders will be offered the opportunity biannually to convert existing Class 2 and 3 shares into Class 5 preference shares.
  - In the highly unlikely case of liquidation of the company, the right of the Class 5 preference shareholders to share in the surplus is limited to R1,00 per share (where Class 2 and 3 shareholders can share in the surplus above R1,00). The shares therefore have no preferential right in the event of liquidation.
  - The shares can be ceded to VKB Landbou as security for production financing, at the market value thereof. Where existing Class 2 and 3 shares serve as security, equivalent security must be offered before the Class 2 and 3 shares can be converted into Class 5 preference shares.
  - There is a difference in the rate of return of Class 4 preference shares and Class 5 preference shares, but further the Class 5 preference shares rank pari passu with the Class 4 preference shares.
- 3) The terms of Class 2 and 3 shares be amended to provide for the conversion thereof into Class 5 preference shares.
- 4) The Class 5 preference shares be listed on a stock exchange.
- 5) The company approve an amended Memorandum of Incorporation that provides for the resolutions and provisions set out herein, and furthermore complies with the requirements of the stock exchange where the Class 5 preference shares will be listed.
- 6) The Board be authorised to give effect to these resolutions.