

Private & Confidential

The Board of Directors and the Independent Board
ELB Group Limited
14 Atlas Road
Anderbolt
Boksburg
1459

14 April 2020

Dear Sirs,

RE: REPORT OF THE INDEPENDENT EXPERT TO THE DIRECTORS OF ELB GROUP LIMITED REGARDING THE SPECIFIC REPURCHASES OF ORDINARY SHARES IN THE ISSUED SHARE CAPITAL OF ELB GROUP LIMITED**1. INTRODUCTION**

Shareholders are referred to the SENS announcement published on 28 February 2020 wherein shareholders were advised that ELB Group Limited (“**ELB**” or the “**Company**”) intends to, inter alia, collapse the 2010 ELB Employee Share Scheme (“**Employee Scheme**”) as part of the restructuring initiatives announced on SENS on 8 January 2020.

The collapse of the Employee Scheme will be achieved by way of the following:

- A proposed repurchase by the Company of 981 135 shares currently held by the Employee Trust that are either earmarked for options that have been issued or which are not yet earmarked for options but were intended to be in the future (the “**Excess Trust Shares**”).
- The Excess Trust Shares will be repurchased by the Company from the Employee Trust at a repurchase price per share of R19.01 and an aggregate repurchase price of R18 631 754 which repurchase price will be paid by offset against an equivalent portion of the loan owing by the Employee Trust to the Company (the “**Specific Repurchase 1**”).
- A disposal by scheme participants (“**Employee Scheme Participants**”) to the Employee Trust of their shares, in settlement of all amounts owing by the respective scheme participants, being 3 048 217 shares (the “**Employee Scheme Shares**”).
- A proposed repurchase by the Company or a subsidiary of the Company of the Employee Scheme Shares at a repurchase price per share of R19.01 and an aggregate repurchase price of R57 889 350 which repurchase price will be paid by offset against an equivalent portion of the loan owing by the Employee Trust to the Company (the “**Specific Repurchase 2**”).
- The shares purchased in terms of Specific Repurchase 1 and Specific Repurchase 2 (the “**Specific Repurchases**”) shall be subsequently cancelled, to the extent purchased by the Company, or, held as treasury shares, to the extent purchased by a subsidiary of the Company.

- A cancellation of options granted by the Employee Trust but which have not yet been exercised nor lapsed (the “**Unexercised Options**”).

As at the date of this opinion, the share capital of the Company is as follows:

	Share Capital (R'000)
Authorised share capital 50 000 000 ordinary shares with a par value of R0.04 per share	2 000
Issued ordinary shares (share capital and share premium) 32 502 894 ordinary shares with a par value of R0.04 per share	180 948
Treasury shares (held by the Employee Trust) 4 029 352 ordinary shares with a par value of R0.04 per share	71 770
Share capital and premium net of treasury shares	109 178

2. SCOPE

With reference to the JSE Listings Requirements (the “**Listings Requirements**”), in terms of paragraph 5.69(e) thereof, ELB is required to obtain an opinion on the Specific Repurchases by an independent expert, and the Board is required to include a statement in the circular to ELB Shareholders to be published on or about 23 April 2020 (the “**Circular**”) confirming whether the Specific Repurchases are fair to ELB shareholders.

With reference to the Companies Act (No. 71 of 2008) (the “**Companies Act**”), the Specific Repurchase 2 on its own, and the Specific Repurchases when seen together as an integrated series of transactions, will involve the acquisition by the Company of more than 5% of its issued ordinary shares. The Specific Repurchases are accordingly subject to the provisions of section 114(2) and 114(3) (as read with section 48(8)(b)) and section 115 of the Companies Act and Regulation 90 of the Takeover Regulations, and the directors are required to obtain independent external advice as to how the Specific Repurchases affect all holders of ELB securities.

Collectively, the above hereinafter referred to as the “**Fair and Reasonable Opinion**” or “**Opinion**”.

Moore Advisory Jhb (Pty) Ltd (“**Moore**”) has been appointed by the board of directors of the Company (“**Board**”) to provide the Opinion.

3. SECTION 114(3) REQUIREMENTS

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

- a. state all prescribed information relevant to the value of the securities affected by the proposed arrangement;

*ELB has undertaken to repurchase the Excess Trust Shares and Employee Scheme Shares (the “**Repurchase Shares**”) at an aggregate repurchase price of R19.01 per share resulting in a repurchase of c.12% of the issued share capital:*

Impact on issued share capital of Specific Repurchases	Number of shares (incl. treasury shares)	% of share capital
Shares in issue	32 502 894	
Treasury shares to be repurchased	(4 029 352)	(12%)
Shares in issue post repurchase	28 473 542	

- b. identify every type and class of holders of the Company's securities affected by the proposed arrangement;

The share capital of ELB immediately prior to the Specific Repurchases comprises of 50 000 000 authorised ordinary shares of 4 cents each.

Per inspection of the share register, Memorandum of Incorporation of ELB, discussions with management of ELB and the signed 2019 Annual Financial Statements, there are presently no other class of shares. At the date of this report, ELB has an issued share capital of 32 502 894 ordinary shares of 4 cents each. The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

- c. describe the material effects that the proposed arrangement will have on the rights and interests of the persons mentioned in paragraph (b);

Due to the Specific Repurchases, neither the Employee Scheme Participants, nor the Employee Trust, will hold any interest in ELB and they will not be entitled to dividends as and when they are declared and paid by ELB and furthermore, they will not be entitled to vote on matters affecting ELB.

The Specific Repurchases will have no impact on the remaining shareholders' equity value, due to the mechanics of the transaction. In our view, the Specific Repurchases will have no material negative effect on the rights and interests of the remaining shareholders.

- 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

As a function of the mechanics of the Specific Repurchases, the Repurchase Shares shall be repurchased at a value equal to the outstanding balance of the Employee Scheme Debt, with no material adverse effects to the shareholders' equity reflected in the consolidated ELB group statement of financial position.

- ii. any reasonable probable beneficial and significant effect of that arrangement on the business and prospects of the Company;

Taking account of the current financial state of affairs of the Company, the Specific Repurchases do not appear to have any reasonably probable beneficial and significant effect on the business and prospects of the company. Likewise, the Specific Repurchases do not appear to have any reasonably probable non-beneficial and significant effect on the business and prospects of the company.

We understand that the imprimatur of the Specific Repurchases is the collapse of the Employee Scheme which is not serving the purposes for which it was established.

- e. state any material interest of any director of the Company or trustee for security holders;
The details of Directors having a material interest in the Specific Repurchases (including directors who have resigned over the last 18 months) are as set out in Annexure A hereto.
- f. state the effect of the proposed arrangement on the interests and persons contemplated in paragraph (e).
The number of direct and indirect shares held by Directors will change as a result of the Specific Repurchases, as set out in Annexure A hereto.
- g. and include a copy of sections 115 and 164 of the Companies Act;
*Copies of sections 115 and 164 of the Companies Act are included as **Annexure 7** of the Circular.*

4. RESPONSIBILITY

Compliance with the Listings Requirements, Companies Act and Companies Regulations is the responsibility of the Board. Our responsibility is to report on the terms and conditions of the Specific Repurchases in compliance with the related provisions of the Listing Requirements, the Companies Act and the Regulations.

We confirm that our fair and reasonable opinion has been provided to the Board for the sole purpose of assisting it in forming and expressing an opinion for the benefit of the ELB shareholders in relation to the Specific Repurchases.

5. EXPLANATION AS TO HOW THE TERMS “FAIR” AND “REASONABLENESS” APPLY IN THE CONTEXT OF THE SPECIFIC REPURCHASES

The “fairness” of a transaction is based on quantitative issues. A transaction will generally be considered fair to a company’s shareholders if the benefits received by a company, as a result of the corporate action, are equal to or greater than the value surrendered by the company.

In the context of the Employee Scheme Transactions, the Specific Repurchases may be said to be fair if the value of an ELB share is greater than or equal to the price paid by the Company to acquire the shares, and conversely, unfair, if the value of the Specific Repurchases exceeds the value of an ELB share.

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

6. SOURCE OF INFORMATION

In arriving at our conclusions, we have relied upon the following principle sources of information:

- Group Recapitalisation Plan presented to ELB Group Limited by Apex Partners Holdings Proprietary Limited, detailing the proposed restructuring steps, dated 9 December 2019.

- ELB Group Limited integrated annual reports for the years ended 30 June 2018 and 30 June 2019.
- The Rules of the ELB Executive Share Incentive Scheme 2010 (the “**Rules**”).
- The trust deed of ELB Share Incentive Trust including amendments thereto (“the “**Trust Deed**”).
- Sale of shares agreement between ELB, ELB Engineering (Pty) Ltd and Leone Family Holdings (Pty) Ltd pursuant to the sale of Metquip (Pty) Ltd (the “**SPA**”).
- Unaudited management accounts of the Company and Group for the 12-month period ended 30 June 2019.
- Unaudited management accounts of the Company and Group for the six-month period ended 31 December 2019.
- Unaudited annual financial statements of the ELB Share Incentive Trust for the period ended 30 June 2019.
- Forecast financial information of ELB for the year ending 30 June 2020.
- ELB accounting position paper on the proposed ELB Share Scheme changes prepared by management of the Company.
- A taxation opinion provided to the Company by KPMG in respect of the collapse of the ELB Share Scheme dated 27 February 2020.
- Selected publicly available information that we deemed to be relevant to the Specific Repurchases and the industry in which ELB operates.
- Discussions with the ELB management team.

7. PROCEDURES PERFORMED

In arriving at our opinion, we have undertaken the following procedures and taken into account the following factors:

- Reviewed the terms and conditions of the Specific Repurchases as contained in the Circular.
- Reviewed the financial information relating to ELB, as detailed above.
- Held discussions with the directors and management of ELB as to the long-term strategy and the rationale for the Specific Repurchases and considered such other matters as we considered necessary including assessing prevailing economic and market conditions and trends in the industries in which ELB operates.
- Obtained the 30, 60, 90-day VWAP and quoted closing market price per share as at the last practically available date.
- Performed a sum-of-the-parts (“**SOTP**”) valuation of ELB.
- Performed a sensitivity analysis on key assumptions included in the valuation.
- Where relevant, corroborated information and/or details with representative(s) of ELB.
- Reviewed certain publicly available information relating to ELB and the industry in which it operates that we deem to be relevant, including company announcements and media articles.

8. ASSUMPTIONS

We arrived at our findings based on the following assumptions:

- The economic, regulatory and market conditions in existence immediately prior to COVID-19 will prevail, notwithstanding the impact of COVID-19 and the Company’s business and its operations not change materially as a consequence of COVID-19.
- ELB is, at the date of this Opinion, not engaged in any advanced discussions relating to any acquisitions or transactions that will have a significant impact on the value of ELB, other than those disclosed in the Circular.
- ELB does not have any material outstanding disputes with the South African Revenue Service.

- There are no undisclosed contingencies that could affect the value of ELB.
- That all agreements that are to be entered into in terms of the Specific Repurchases will be legally enforceable.
- The Specific Repurchases will have the legal, accounting and taxation consequences described in discussions with, and materials furnished to us by representatives and advisors of/by ELB.
- That reliance can be placed on the financial information of ELB.

9. 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:

- Reliance on audit reports in the financial statements of ELB.
- Conducting analytical reviews on the historical financial results and forecast financial information, such as key ratio and trend analyses.
- Comparing and corroborating such information and assumptions with external sources of information, to the extent such information was available.
- Determining the extent to which representations from management were confirmed by documentary evidence, as well as our understanding of ELB and the Specific Repurchases.

10. VALUATION APPROACH

Moore performed a valuation of ELB on a SOTP basis to determine whether the Specific Repurchases are fair to ELB Shareholders.

The valuation was based on the following principle approach:

- Performed a valuation on a segment basis for each of the reported segments comprising the ELB Group, being “Equipment”, “Engineering Services”, “Australasia” and “Central”.
- With the exception of “Australasia”, the primary valuation approach adopted was the capitalisation of maintainable earnings approach (otherwise also known as the “market approach”).
- The valuation results determined using the market approach were benchmarked to the attributable segmental net asset value for reasonability.
- The Australasian segment was valued with reference to the proposed terms of its sale, as set out in the Circular and the SPA.
- Other financial assets and financial liabilities were valued based on their carrying values.

Key internal and external value drivers of the capitalisation of maintainable earnings approach include:

- The sustainable earnings of each segment.
- Market-related earnings multiples applicable to comparable publicly traded companies, adjusted for differences between the segments and the market comparables to account for the risk profile of the segment relative to the basket of peers.

In addition, sensitivity analyses were performed in respect of the following:

- Increasing and decreasing the earnings multiples for unlisted investments by a maximum of 0.5x.

The sensitivity analyses did not indicate a sufficient effect to alter our opinion in respect of the Specific Repurchases.

11. VALUATION RESULTS

In undertaking the valuation exercise above and with reference to the results of our sensitivity analysis, we determined a valuation range of R3.76 to R5.79 per ELB share, with a base value of R4.78 per ELB share.

The valuation ranges are provided solely in respect of the Fair and Reasonable Opinion and should not be used for any other purpose.

12. FAIRNESS AND REASONABLENESS OPINION

12.1. REASONABLENESS OF THE TRANSACTION

In considering the reasonableness of the Specific Repurchases, we considered, inter alia, the following:

- the rationale for the Specific Repurchases.
- The factual solvency and liquidity of ELB after completing the Specific Repurchases.

With due regard to the above, we have assessed the terms of the Specific Repurchases and have found no indication that the Specific Repurchases will have any material adverse effect on the Company or its shareholders and have identified no transaction parameters which could be considered unreasonable to the Company or its shareholders.

12.2 FAIRNESS OF THE TRANSACTION

Moore has considered the terms and conditions of the Specific Repurchases and based on and subject to the conditions set out herein, is of the opinion that the terms and conditions of the Specific Repurchases, based on quantitative considerations, are not fair to ELB Shareholders.

13. INDEPENDENCE, COMPETENCE, FEES AND LIMITING CONDITIONS

We confirm that Moore has no independence issues relating to directorships, employment, owning shares, management and fees earned in ELB or related parties.

We confirm that Moore and the directors responsible for this assignment have the necessary competencies relating to internal control systems, quality control, experience and qualifications.

We confirm that we have no financial interest and no relationship in ELB or related parties. Furthermore, we confirm that our professional fees are not contingent upon the success of the Specific Repurchases.

We confirm that the scope of our procedures and work performed were not subject to any limiting conditions.

Our Opinion is based upon the market, regulatory and trading conditions as they currently exist and can only be evaluated as at the date of this report. It should be understood that subsequent developments may affect our Opinion, which we are under no obligation to update, revise or re-affirm.

This Opinion is provided to the Board in connection with and for the purpose of the Specific Repurchases and for the sole purpose of assisting the Board in forming and expressing an opinion for

the benefit of ELB Shareholders. This opinion is prepared solely for the Board and therefore should not be regarded as suitable for use by any other party or give rise to third party rights.

This Opinion is provided in terms of the Listing Requirements, the Companies Act and the Companies Regulations. It does not constitute a recommendation to any ELB Shareholder as to how to vote at any Shareholders' meeting relating to the Specific Repurchases or on any matter relating to it. Therefore, it should not be relied upon for any other purpose. We assume no responsibility to anyone if this opinion is used or relied upon for anything other than its intended purpose. Should an individual ELB Shareholder have any doubts as to what action to take, such Shareholder should consult an independent advisor.

Budgets/projections/forecasts relate to future events and are based on assumptions which may not remain valid for the whole of the forecast period. Accordingly, this 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 actual results will correspond to those projected/forecast by management of ELB. We have compared the projected/forecast financial information to past trends as well as discussed the assumptions inherent therein with management.

The valuation of companies and businesses is not a precise science and conclusions arrived at, will, in many cases be subjective and dependent on the exercise of individual judgment.

14. CONSENT

We hereby consent to the inclusion of this Opinion, in whole or in part, and references thereto in the Circular and any other announcement or document pertaining to the Specific Repurchases, in the form and context in which they appear.

Yours sincerely,



MOORE ADVISORY JHB (PTY) LTD

Per: Olivier Barbeau

Director

Annexure A

	Before the Specific Repurchases				After the Specific Repurchases			
	Beneficial		Total	Total %	Beneficial		Total	Total % [#]
Director	Direct	Indirect			Direct	Indirect		
Executive Directors								
Anthony Fletcher [§]	100	3 294 612	3 294 712	10.14%	100	3 294 612	3 294 712	11.57%
Charles Pettit [§]	-	5 578 931	5 578 931	17.16%	-	5 578 931	5 578 931	19.59%
Stephen Mejjers*	1 300 100	-	1 300 100	4.00%	100	-	100	0.00%
Michael Easter*	75 000	-	75 000	0.23%	-	-	-	-
Mollo Ramollo [§]	1 876	-	1 876	0.01%	1 876	-	1 876	0.01%
John Herselman [§]	-	-	-	-	-	-	-	-
Peter Blunden [§]	860 000	-	860 000	2.65%	860 000	-	860 000	3.02%
Cornelius Smith	321 000	-	321 000	0.99%	63 000	-	63 000	0.22%
Altea Spagnuolo [§]	-	-	-	-	-	-	-	-

Non-Executive Directors								
Johan van Zyl [§]	-	-	-	-	-	-	-	-
Theunis de Bruyn* [§]	15 000	-	15 000	0.05%	15 000	-	15 000	0.05%
Ian Thompson* [§]	7 100	-	7 100	0.02%	7 100	-	7 100	0.02%
Refilwe Nkabinde [§]	-	-	-	-	-	-	-	-
Buyisiwe Makhunga [§]	-	-	-	-	-	-	-	-
Total	2 580 176	8 873 543	11 453 619	35.24%	947 176	8 873 543	9 820 719	34.49%

*Resigned prior to the Last Practicable Date

[§]Not a scheme participant and accordingly not party to the Specific Repurchases in terms of section 114.

#Based on a total number of issued shares (including treasury shares).