

**SUMMARY OF THE UNAUDITED GROUP FINANCIAL STATEMENTS for the year ended 31 December 2018**

	Unaudited 31 Dec 2018 R'000	Audited 31 Dec 2017 R'000		Unaudited 31 Dec 2018 R'000	Audited 31 Dec 2017 R'000			
<b>STATEMENT OF COMPREHENSIVE INCOME</b>			<b>STATEMENT OF FINANCIAL POSITION</b>					
<b>Turnover</b>	<b>1,022,734</b>	<b>959,601</b>	<b>ASSETS</b>					
Cost of sales	(376,181)	(357,905)	<b>Non - current assets</b>	<b>377,222</b>	<b>325,458</b>			
<b>Gross profit</b>	<b>646,553</b>	<b>601,696</b>	Property, plant and equipment	106,862	97,003			
Other operating income	33,557	36,393	Investment properties	54,920	37,057			
Administrative and operating expenses	(604,701)	(573,670)	Investments in associates	143,068	116,253			
<b>Profit from operating activities</b>	<b>75,409</b>	<b>64,419</b>	Investments in joint ventures	1,115	3,239			
Profit from investment activities	5,053	5,335	Other financial assets	21,633	20,468			
<b>Operating profit</b>	<b>80,462</b>	<b>69,754</b>	Intangible assets	26,186	29,021			
Net finance income/(expense)	4,458	(2,932)	Deferred income tax assets	23,021	22,300			
<b>Profit before tax</b>	<b>84,920</b>	<b>66,822</b>	Trade and other receivables	418	117			
Tax expense	(22,944)	(16,855)	<b>Current assets</b>	<b>359,277</b>	<b>324,910</b>			
<b>Profit after tax</b>	<b>61,976</b>	<b>49,966</b>	Current income tax assets	1,750	1,202			
Share in after tax profit of associates	17,629	17,114	Other financial assets	4,088	810			
<b>Profit for the year from continuing operations</b>	<b>79,605</b>	<b>67,080</b>	Biological assets	1,713	-			
Loss for the year from discontinued operations	(2,600)	(4,107)	Inventories	6,466	11,199			
<b>Profit for the year</b>	<b>77,005</b>	<b>62,973</b>	Trade and other receivables	215,165	205,916			
Minority interest	(11,189)	(13,233)	Cash and cash equivalents	130,095	105,783			
<b>Profit attributable to ord.shareholders ("basic earnings")</b>	<b>65,816</b>	<b>49,740</b>	<b>TOTAL ASSETS</b>	<b>736,499</b>	<b>650,368</b>			
<b>Reconciliation between basic earnings and recurring headline earnings:</b>			<b>EQUITY AND LIABILITIES</b>					
(Profit)/loss on disposal of property, plant and equipment	(665)	(46)	<b>Capital and reserves</b>	<b>465,764</b>	<b>383,035</b>			
(Profit)/loss on disposal of other financial assets	252	(3,046)	Ordinary shareholders' interest	419,370	341,178			
(Profit)/loss for the year from discontinued operations	2,600	4,107	Share capital	95,026	71,610			
Fair value adjustments to insurance assets	(4,733)	(2,133)	Dividend Reserve	19,568	11,503			
Fair value adjustments to investment properties	1,939	-	Non-distributable reserve	3,619	3,619			
Fair value adjustments to other financial assets	1,322	1,088	Retained earnings	301,157	254,445			
Amortisation of goodwill and intangible assets	4,239	3,891	Minority interest in equity	46,394	41,857			
Insurance Claims Received (Capital Assets)	(4,788)	-	<b>Non - current liabilities</b>	<b>132,509</b>	<b>95,423</b>			
Overprovision of performance bonuses	54	155	Deferred income tax liabilities	17,350	11,036			
Impairment losses	-	(172)	Borrowings	115,159	84,387			
<b>Recurring headline earnings</b>	<b>66,036</b>	<b>53,584</b>	<b>Current liabilities</b>	<b>138,226</b>	<b>171,910</b>			
Weighted number of ordinary shares issued ('000)	3,291	2,600	Trade and other payables	134,200	148,835			
<b>Basic earnings per share (cents)</b>	<b>2,000</b>	<b>1,913</b>	Borrowings	2,686	21,568			
<b>Recurring headline earnings per share (cents)</b>	<b>2,007</b>	<b>2,061</b>	Current income tax liabilities	1,339	1,507			
<b>Dividend per share (cents)</b>	<b>350</b>	<b>330</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>736,499</b>	<b>650,368</b>			
<b>CONSOLIDATED CASH FLOW STATEMENT</b>								
	<b>Unaudited 12 months 31 Dec 2018</b>	<b>Audited 12 months 31 Dec 2017</b>	<b>Net asset value per share (rand)</b>	<b>127.44</b>	<b>103.81</b>			
Cash generated by operating activities	58,479	61,225	Tangible net asset value per share (rand)	119.48	94.98			
Cash utilised in investing activities	(69,474)	(15,862)	Total number of shares issued ('000)	3,291	3,286			
Cash generated by/(utilised in) financing activities	37,833	103,514						
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>26,838</b>	<b>148,877</b>						
<b>Cash and cash equivalents at beginning of year</b>	<b>103,227</b>	<b>(45,650)</b>						
<b>Cash and cash equivalents at end of year</b>	<b>130,065</b>	<b>103,227</b>						
The fluctuating nature of Vleissentraal's debtors between calendar months and/or any acquisition made during the year can impact severely on the cash generated by operations. It is therefore difficult to make any meaningful comparison and caution should therefore be taken when evaluating cash movements.			<b>STATEMENT OF CHANGES IN EQUITY</b>					
			<b>Share capital</b>	<b>Non-distrib. reserves</b>	<b>Dividend reserve</b>	<b>Retained Earnings</b>	<b>Total</b>	
			<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	
			<b>Balance on 31 December 2017</b>	71,610	3,619	11,503	254,445	341,178
			Dividends declared/proposed	-	-	8,065	(19,568)	(11,503)
			Profit for the year	-	-	-	65,816	65,816
			Equity Movements	23,416	-	-	463	23,879
<b>Balance on 31 December 2018</b>	<b>95,026</b>	<b>3,619</b>	<b>19,568</b>	<b>301,156</b>	<b>419,370</b>			



# SUBTROPICO LIMITED

Registration number: 1993/000220/06

## GROUP FINANCIAL HIGHLIGHTS:

FINAL PROFIT WARRANTY PAYMENT (R24,7M) RECEIVED FROM ARC  
 INCORPORATION OF VLEISSENTRAAAL PORT ELIZABETH  
 INCORPORATION OF SUBTROPICO ONLINE  
 KLK TAKEOVER BID  
 R60M KLAPMUTS AGRI-HUB CONSTRUCTION PROJECT

DISINVESTMENT FROM BURPAK  
 SHARE PRICE: R121 PER SHARE (INDEP. VALUATION 5/12/2018)  
 HEADLINE EARNINGS: R66M (+23.2%)  
 NET ASSET VALUE PER SHARE: R127.44  
 DIVIDEND PAID: R4.00 PER SHARE (+14.3%)

## COMMENTS:

### ACCOUNTING POLICY

The unaudited group financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities ("IFRS for SMEs") and in the manner required by the Companies Act of South Africa.

### OPERATING RESULTS

Turnover has increased by 6.6% to R1.02 billion (2017: R959.6 million) mainly as a result of weak fresh produce prices that was largely offset by new acquisitions made during the year. The recurring headline earning of R66 million is 23.2% higher than the previous year (2017: R53.6 million). The recurring headline earnings per share decreased by 2.6% to 2,007 cents (2017: 2,061 cents). The recurring headline earnings per share decrease differs from the recurring headline earning increase due the dilutive effect of the 825,999 shares issued to ARC in November 2017.

### Recurring Headline Earnings by source:

	<u>% Increase/ (decrease)</u>	<u>2018 R'000</u>	<u>Contri- bution</u>	<u>2017 R'000</u>	<u>Contri- bution</u>
Head office	-27.8%	-10,632		-14,717	
Fresh Produce Market Agents	8.6%	28,541	37.2%	26,290	38.5%
Livestock Agents	7.5%	25,303	33.0%	23,537	34.5%
Value add	30.7%	23,274	30.4%	17,807	26.1%
Financial & Insurance Services	-167.4%	-450	-0.6%	668	0.9%
<b>Total</b>	<b>23.2%</b>	<b>66,036</b>	<b>100%</b>	<b>53,585</b>	<b>100%</b>

### Fresh Produce Market Agents:

The contribution to recurring headline earnings was 8.6% higher than the prior year. The value of produce sold for the year increased by 19.2% to R3.42 billion (2017: R2.87 billion). Fresh produce experienced a flat price market during the year with the national rand per ton price only increasing by 5.4%. The 2017 acquisition of DW Fresh Produce Pretoria and Johannesburg also contributed positively to results. The value of produce sold resulted in a market share of 20.5% (2017: 18.8%) of the national produce markets that we are represented on.

### Livestock Agents:

The livestock agents' business experienced a challenging year with the contribution to recurring headline earnings being 7.5% higher on the back of weak weaner calf prices. Livestock and game sold on behalf of producers increased by 5% to R4.76 billion (2017: R4.54 billion). Weaner calf p/kg has ended the year weaker at R33.34 p/kg (2017: R36.44 p/kg). We are excited about the establishment of Vleissentraal PE and welcomes the team that joined us at the end of 2018. Vleissentraal PE will expand our footprint into the Eastern Cape and improve our market share of sheep auctions.

### Value-add (Processing & Packaging, Wholesale and Retail):

The Subtropico International Group's contribution to recurring headline earnings has improved since the prior year. The construction of a new, state-of-the-art Agri-Hub will be completed end of August 2019 with Westfalia as the anchor tenant. The Vioolsdrif, Klapmuts and Greendrop primary production projects have been discontinued. The sale of our investment in Burpak to a consortium of regional avocado farmers was concluded in December 2018. KLK Landbou Limited contributed a 30.6% (2017: 28%) equity accounted profit of R18.1 million (2017: R14.0 million) to recurring headline earnings for the year. Farmwise has remained profitable after a process of restructuring and strategic alignment and has contributed R3.9 million to recurring headline earnings for the year (2017: R3.1 million) on the back of continued weak potato prices and low consumer confidence experienced at retailers.

### Insurance services:

Nature accounted for a recurring headline loss of R0.4 million (2017: R0.7 million profit). Opportunities to grow Nature's premium and commission base but also alternatively to disinvest are continually being evaluated in tandem.

### OFFER TO THE REMAINING SHAREHOLDERS OF KLK

On 2 November 2018 an offer of R17.50 per share (and/or a share alternative) was made to the remaining shareholders of KLK. Shortly afterwards on 18 December 2018 Senwes made an offer of R18.50 per share (and/or a share alternative). On 20 February 2019 Subtropico increased its offer to R19 per share (without share alternative and within the independent expert's valuation range). On 11 March 2019 Senwes also increased its offer to R19.50 per share (and/or a share alternative). Subtropico decided not to continue with the bidding war as a counter offer price would approach the upper limits of our valuation range. As a result of the offer our shareholding in KLK has increased from 30.61% to 31.77%. Senwes now holds 57.44% in KLK. We congratulate Senwes with their successful offer and in joining us as anchor shareholders. We look forward to the value and synergies that Senwes will unlock at KLK.

### SYSTEM UPGRADE

Subtropico is currently implementing a new cloud-based reporting system that has unfortunately resulted in the delay of the communication of these unaudited results and the payment of the 2018/2019 dividend. We however believe that the new system will greatly aid us in pro-actively managing the group's investment portfolio and also result in a more timeous reporting timeframe in 2019 and beyond.

### DIVIDEND

A dividend of 400 cents per share (2017: 350 cents) was paid on Monday, 20 May 2019 to shareholders recorded in the securities register at close of business on Monday, 13 May 2019. Withholding tax of 20% was deducted and paid over to SARS, resulting in a net dividend of 320 cents per share, unless exemption had successfully been applied for.

### WITHDRAWAL OF CAUTIONARY ANNOUNCEMENT AND CLOSED PERIOD

Due to the unaudited nature of the results, shareholders are advised to exercise caution when dealing in shares. The conclusion of the KLK offer and the publication of the results have now resulted in the closed period and all restrictions on the trade of shares being suspended until further notice.

### PROSPECTS

Fresh Produce prices have been weak in 2018 and has remained under pressure during 2019. Price support is expected to improve in the remainder of 2019. Livestock prices have weakened during 2018 and this has continued in 2019. The outbreak of foot and mouth disease and the cross border sale of Namibian live stock due to drought has added further price pressure. Livestock prices are expected to improve on the short to medium term. Management remains committed to improving results by organic growth and acquisition. Unless unforeseen circumstances arise, the profitability of the group is expected to improve during 2019.

For and on behalf of the directors at Pretoria on 13 May 2019

**B P BOTHA - CFO**

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