

Annexure B – The Pentagon - Background Information Document

A dark blue vertical bar is positioned on the left side of the page. A blue arrow points to the right, overlapping the bar, with the date '10/26/2018' written inside it in white text.

The Pentagon

Business and Residential Development

10/26/2018

Background Information Document

Several thin, curved lines in dark blue and light grey originate from the bottom left corner and sweep upwards and to the right, creating a dynamic, abstract design element.

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Project regional setting

The Pentagon Business and Residential Development (PBRD) is situated in the Thaba Chweu local municipality (TCLM) which forms part of the Ehlanzeni District Municipality in Mpumalanga Province, South Africa. TCLM is a Category B municipality and is approximately 350km east of Johannesburg city and 95km north-west of the provincial capital Mbombela, previously known as Nelspruit. See locality plan in figure 1 below.

The TCLM is located in the heart of one of the prime tourism destinations of the country. All the towns in the TCLM, including Lydenburg, are identified as tourism nodes in provincial planning schemes. In 2011 alone Mpumalanga received over a million foreign tourists, contributing to a foreign direct spend of R4.7 Billion in the same year.

The TCLM is located in proximity to the provincial capital Mbombela, and well-connected regionally in terms of several major route and highways. It is one of four municipalities in the district. The district is divided into eastern and western halves. The western half, Lydenburg district, is where The Pentagon Development is situated. The area is dominated by mining, agricultural and farming activities, while forestry is the main economic activity of the eastern half (Sabie/Graskop district).

In terms of sector contributions, mining is the main sector where the TCLM makes a significant contribution to the economy of the District. It is the leading municipality in this sector, producing more than half of the mining sector's output (52%) according to the latest data. Thaba Chweu is one of the major tourist attraction areas in South Africa. Lydenburg district is also a hub of heritage where the famous Lydenburg Heads, which are said to date back to 400AD, were found in the 1950s.

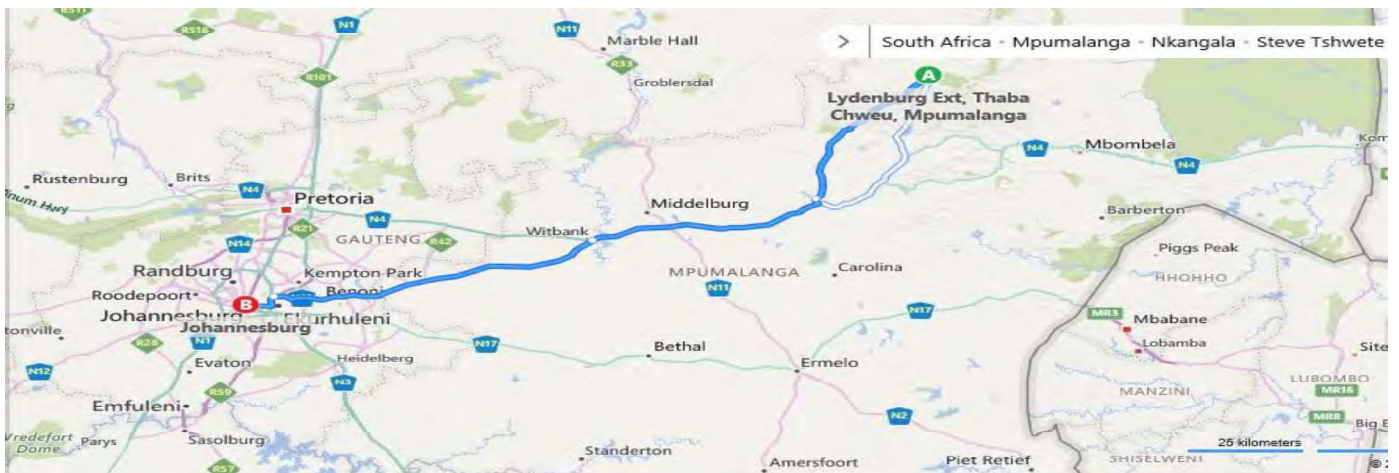


Figure 1: Lydenburg locality plan

Project locality

The Pentagon Business and Residential Development is proximity to Lydenburg town which has an estimated population 147 000 people. Some of the land uses in close proximity, 1km radius, to the proposed development site includes an FET College, residential houses, church and Laske Nake 3-star resort. PBRD is illustrated as site A on the shaded area in figure 2.

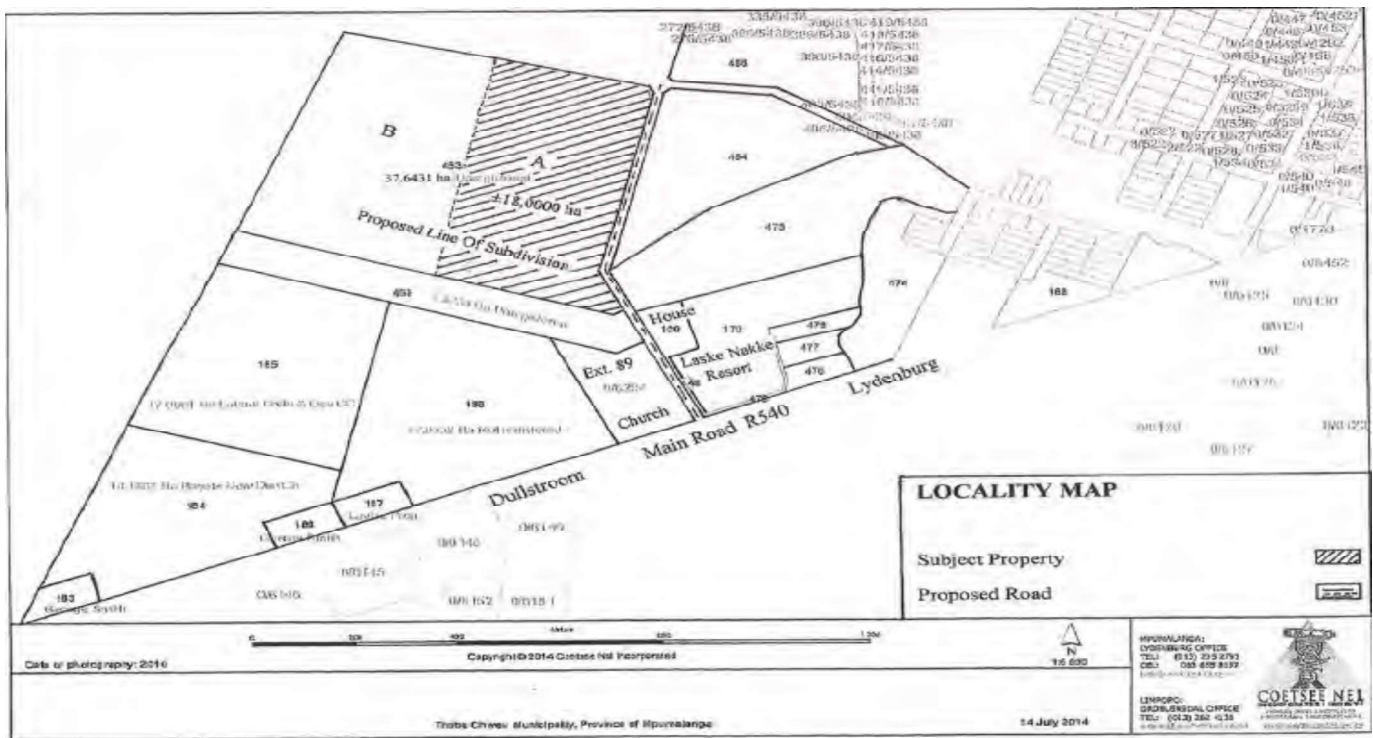


Figure 2: Project site location.

Project description, extent and components

PBRD is wholly owned by KHS (Pty) LTD which in turn has full ownership of an area of approximately 18ha in extent located in the town's up-market area. Although currently zoned agricultural land, according to the spatial vision and survey contained in the TCLM Spatial Development framework this piece of land is suitable and earmarked for both residential and business development. The proposed land uses that makes up PBRD includes but not limited to the following:

- Corporate office park (for KHS (Pty) LTD's own use and rental purposes);
- 250 high rise townhouses or sectional title for rental and sale (50/50);
- 110 full title houses for sale;
- Medium-sized shopping complex for commercial space rental:
 - Anchor shop: Shoprite, Spar or Pick'n Pay;
 - Departmental stores or clothing shops;
 - Bank;
 - Restaurant (Franchise or otherwise)
- Private hospital;
- Public parking/taxi rank for access;
- Filing station (Shell/BP/Engen/etc.);
- Hotel/Guesthouse;
- Indoor and outdoor pub; and
- Leisure Park.

PBRD will either be developed in a phased approach or in full depending on the prevailing economic conditions, project capital intensity and market forces. It is currently envisaged that the corporate office park will be the most cost-effective aspect of the project with the highest net present value and thus proposed to be phase 1 of the development. This scheduling is also informed by the current medium to

high demand for office space and lack thereof in the region. Office space rental ranges between R120 to R230 per square meter in the CBD and surrounding areas.

Figure 3 is a conceptual plan-view illustration of the proposed double storey office park and shopping complex in the envisage pentagon shape. The rest of the PBRD inclusive of stand-alone houses, townhouses, filling station and hospital will be surrounding this building as per the town planning layout which is presently under development by appointed town planners.

Block A in figure 3 comprise of Phase 1A of the development which will be the first building to be constructed at the very onset of construction phase.



Figure 3: The overall Pentagon building

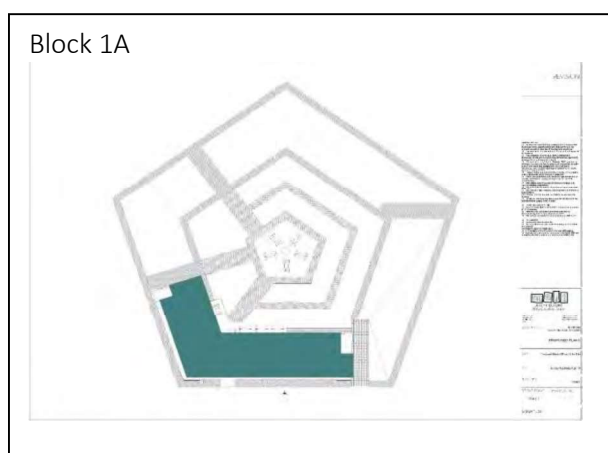


Figure 4: Project Phase 1A

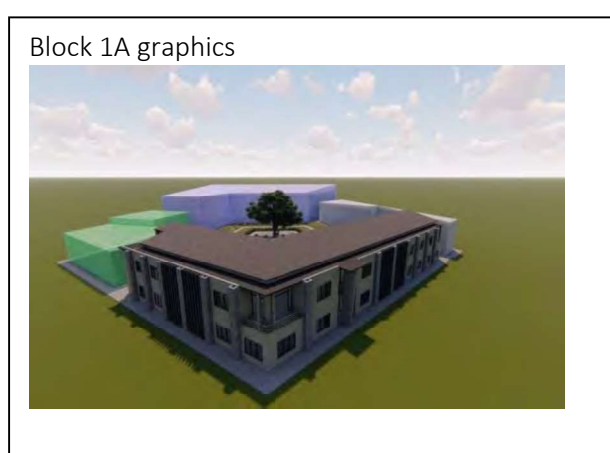


Figure 5: Project Phase 1A



Figure 6: Project Phase 1A



Figure 7: Project Phase 1A

Project justification

It is against the backdrop of research and data analysis from all three spheres of government including Statistics South Africa that provides the basis and motivation for the PBRD in this municipality. The mostly untapped township economy, growing economically active population and the vibrant SMME's in the area supports PBRD's vision.

Chrome reserves and the platinum belt spans across the municipality and has attracted investment in excess of an estimated \$15 000 000 in the past 5 years. These mines and its employees will be segmented and targeted for residential, commercial and entertainment features of PBRD. Operational mines in the 50km radius with interest in mainly platinum and chrome are listed below. These mines have a projected lifespans of between 5 and 20 years:

- Samancor;
- Glencore;
- Anglo Platinum;
- African Rainbow Minerals;
- Boysendaal;
- Dwars mine;
- Magareng;
- Thorncliff; and
- Brochen

As the national and global outlook in the natural commodities market and mining improves, so will the region's vibrancy, economic activities and property market. A property boom like in various other areas is expected to take off in the next several years for commercial space rental, residential rental and purchasing market. The residential market will be serviced through both sectional and full title units. Middle income and marginally up-market houses will be constructed as part of the PBRD project, prospective buyers will have six (6) different architectural designs to choose from as part of the 110 full title houses on offer.

An observation was made of a growing number of emerging contractors and SMME's in the region. An attempt will be made to lure these businesses to the commercial space possibly in an open-plan office space with necessary support facilities if there is a strong business case for it.

The municipality, like numerous others in the country, is plagued by a large housing backlog. This challenge is attributed to several factors including poor planning, maladministration but chiefly unavailability of serviced sites and land for development. KHS (Pty) LTD is well-placed as it owns a 17ha land and is in possession of the Title Deed of land suitable for development for all the above-mentioned PBRD proposed land uses. Connection points for services inclusive of water supply, electricity and sewage are all within a 500m radius reasonably reducing development costs.

The Lydenburg General Hospital is in a diabolic condition and in a state of collapse. It has not been growing to meet the increasing population in the area, has not attracted skilled resource and frankly has been neglected by the province. To a large extent if not worse, it represents the dreadful state of medical healthcare facilities of the country. The citizens residing in the municipality must travel more than 100km to get adequate medical care. It is this dire state of affairs that birthed the idea of establishing a private hospital in Lydenburg pending a detailed feasibility study.

As mentioned above, the region is a popular tourist route that has in the past and continues to attract local and international tourists. It is with disbelief that there are less than a handful of hotels in the municipality.

Table 1 below indicates project items underway as well as project items to commence. PBRD Project is holistically developed but each proposed land use will be individually assessed, costed and Net Present Value (NPV) separately evaluated to ensure profitability of each use independently.

Item	Status	Cost estimate (Y/N)
1. Environmental Impact Assessment.	Service provider appointed and work in progress.	Y
2. Rezoning and Town Planning.	Service provider appointed and work in progress.	Y
3. Market Research, Analysis and Advertising.	Service provider appointed and work in progress.	Y
4. Land valuation, survey and purchase.	Completed	Y
5. Conceptual Architectural Designs (Phase 1A Detailed).	Service provider appointed and work in progress.	Y
6. Geotechnical study	Service provider identified and work to commence.	Y
7. Quantity survey	Service provider identified and work to commence.	Y
8. Structural Engineering	In discussion with preferred service provider	N
9. Roads and storm water management	In discussion with preferred service provider	N
10. Energy study and supply	In discussion with preferred service provider	N
11. Building contractor	In discussion with preferred service provider	N
12. Traffic Impact Study	Service provider to be identified	N

Table 1: Work items.

High level overview of project regulatory framework and requirements

- **Spatial Development Framework:**
 - PBRD scope of work, proposed land uses as well as plans have been assessed against local and provincial framework and found to be aligned.
- **Environmental Impact Assessment:**

- No fatal flaws identified and detailed studies are in progress. Approval expected from provincial authorities.
- **Town planning and re-zoning:**
 - Rezoning and town planning requirements have been identified and work in progress.
- **General Authorization:**
 - A General Authorization will be sought after if the PBRD encroaches the 1:100 year in the southern edge of the development. This might also be a requirement if the access road towards the provincial road is deemed a necessity as a road over stream bridge will be needed.
- **Contractors and Professional service providers:**
 - Building contractor to be NHRB registered and be conversant with Occupational Health and Construction Legislation.
- **High level Risk Assessment**
 - Risk Assessment successfully conducted and indicated a favourable outcome. The assessment considered the following aspect and criteria:
 - Business risks:
 - Financial risks:
 - Legal risks;
 - Operational risks: and
 - Stakeholder management including the volatility (reasonably stable) of the local community of Thaba Chweu.

PBRD is currently in the market seeking funding from interested investor in return for equity in the long-term business model. Investors are herewith invited to engage for further details or information request.