BUSINESS RESCUE PLAN

Prepared and published in terms of

section 150 of the Companies Act, No. 71 of 2008, as amended

in relation to

LE-SEL RESEARCH (RF) PROPRIETARY LIMITED

(Registration No. 1987/001815/07)

(in business rescue)

Prepared by:

PHAHLANI LINCOLN MKHOMBO

(Business Rescue Practitioner)

with the assistance of

Legal Advisors to Business Rescue Practitioner

PUBLICATION DATE: 30 MARCH 2018
# TABLE OF CONTENTS

## INTRODUCTION

1. INTERPRETATION AND PRELIMINARY  

## PART A – BACKGROUND

2. COMPANY INFORMATION  
3. COMPANY BACKGROUND  
4. SUMMARY OF THE BUSINESS RESCUE  
5. STEPS TAKEN SINCE THE APPOINTMENT OF THE BRP  
6. TRADING ACTIVITIES FOLLOWING THE COMMENCEMENT DATE  
7. MATERIAL ASSETS OF THE COMPANY AT BOOK VALUE AS AT THE COMMENCEMENT DATE (INCLUDING ESTIMATED REALISATION VALUE ON LIQUIDATION)  
8. CREDITORS OF THE COMPANY AS AT THE COMMENCEMENT DATE  
9. CREDITORS VOTING INTEREST AND VOTING BY PROXY  
10. PROBABLE DIVIDEND ON LIQUIDATION  
11. HOLDERS OF THE COMPANY’S ISSUED SECURITIES  
12. THE PRACTITIONERS’ REMUNERATION  
13. STATEMENT ABOUT WHETHER THE BUSINESS RESCUE PLAN INCLUDES A PROPOSAL MADE INFORMALLY BY A CREDITOR  

## PART B – PROPOSALS

14. OBJECTIVE AND PURPOSE OF BUSINESS RESCUE  
15. MORATORIUM  
16. BUSINESS RESCUE OPTIONS  
17. OPTION A – OPERATIONAL TURNAROUND PLAN  
18. OPTION B – SALE PROCESS  
19. OPTION C – STRUCTURED WIND-DOWN OF THE COMPANY  
20. EFFECT ON CREDITORS  
21. EFFECT OF THE BUSINESS RESCUE PLAN ON THE HOLDERS OF EACH CLASS OF THE COMPANY’S ISSUED SHARES
ORDER OF DISTRIBUTION – PAYMENT WATERFALL IN BUSINESS RESCUE 87

PROOF OF CLAIMS BY CREDITORS 87

BENEFITS OF ADOPTING THE BUSINESS RESCUE PLAN COMPARED TO LIQUIDATION 88

RISKS OF THE BUSINESS RESCUE 89

PART C – ASSUMPTIONS AND CONDITIONS 90

CIRCUMSTANCES IN WHICH THE BUSINESS RESCUE WILL END AND THE TERMINATION OF BUSINESS RESCUE 90

CONDITIONS FOR THE BUSINESS RESCUE PLAN TO BE FULLY IMPLEMENTED 90

EFFECT OF THE BUSINESS RESCUE PLAN ON EMPLOYEES 90

PROJECTED BALANCE SHEET AND PROJECTED STATEMENT OF INCOME AND EXPENSES PREPARED ON THE ASSUMPTION THAT THE BUSINESS RESCUE PLAN IS ADOPTED 91

PART D – ADMINISTRATIVE PROVISIONS 92

DISPUTE RESOLUTION 92

ABILITY TO AMEND THE BUSINESS RESCUE PLAN 94

SEVERABILITY 94

CONCLUSION 94

BRP CERTIFICATE 95

Annexure A: List of the material assets and security of the Company (vide clause 7)

Annexure B: List of Creditors and Voting Interests as at the Commencement Date (vide clauses 8 and 9)

Annexure C: List of Disputed Claims (vide clause 1.2.22)

Annexure D1: Income statement projected for a projected period of five years (vide clause 17.12.4)

Annexure D2: Cash flow projected for a period of five years (vide clause 17.12.4)

Annexure D3: Balance sheet projected for a period of five years (vide clause 17.12.4)

Annexure E1: Balance Sheet (vide clause 29)
Annexure E2: Income Statement (vide clause 29)

Annexure E3: Cash flow (vide clause 29)
INTRODUCTION

- THIS DOCUMENT IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF ALL AFFECTED PERSONS. IF ANY AFFECTED PERSON IS IN ANY DOUBT AS TO THE IMPACT OF THIS BUSINESS RECUE PLAN OR THE ACTION IT SHOULD TAKE, THE AFFECTED PERSON SHOULD CONSULT ITS OWN INDEPENDENT PROFESSIONAL ADVISERS.

- THIS IS A BUSINESS RESCUE PLAN PREPARED AND PUBLISHED IN TERMS OF SECTION 150 OF THE COMPANIES ACT. EACH AFFECTED PERSON IS RESPONSIBLE FOR ASSESSING THE MERITS OF THIS BUSINESS RESCUE PLAN WITH RESPECT TO ITS CLAIM AND/OR SHAREHOLDING IN THE COMPANY.

- THIS DOCUMENT CONTAINS THE TERMS AND CONDITIONS OF A BUSINESS RESCUE PLAN FOR THE COMPANY WHICH, IF ADOPTED BY THE REQUISITE STATUTORY MAJORITY OF CREDITORS AND, IF REQUIRED, SHAREHOLDERS, SHALL BECOME BINDING ON THE COMPANY AND ITS CREDITORS AND SHAREHOLDERS UPON THE FULFILMENT OF THE CONDITIONS OF IMPLEMENTATION AS SET OUT IN THIS DOCUMENT.

- THIS BUSINESS RESCUE PLAN IS DIVIDED INTO THE FOLLOWING SECTIONS:
  
  - this introduction, followed by interpretation and preliminary
  - Part A: Background (section 150(2)(a) of the Companies Act)
  - Part B: Proposals (section 150(2)(b) of the Companies Act)
  - Part C: Assumptions and Conditions (section 150(2)(C) of the Companies Act)
  - Part D: Administrative Provisions
  - BRP’s certificate
  - Part A will set out the background and statutory information of the Company, a summary of material events in its Business Rescue and the factors that resulted in the Company becoming financially distressed and being placed under Business Rescue.
  - Part B sets out the terms of the Business Rescue Plan and the options extended to Creditors and Shareholders as opposed to the Company being placed into liquidation.
Part C sets out the conditions that must be fulfilled for this Business Rescue to become effective and binding and financial information, actual and projected, relating to the Company.

Part D sets out certain administrative provisions relevant to this Business Rescue Plan.

- BUSINESS RESCUE IS AIMED AT FACILITATING THE REHABILITATION OF COMPANIES THAT ARE FINANCIALLY DISTRESSED BY PROVIDING FOR THE DEVELOPMENT AND IMPLEMENTATION, IF APPROVED, OF A PLAN TO RESCUE A COMPANY BY RESTRUCTURING ITS AFFAIRS, BUSINESS, PROPERTY, DEBT AND OTHER LIABILITIES, AND EQUITY IN A MANNER THAT MAXIMISES THE LIKELIHOOD OF THE COMPANY CONTINUING IN EXISTENCE ON A SOLVENT BASIS, ALTERNATIVELY, IN THE EVENT THAT IT IS NOT POSSIBLE FOR A COMPANY TO SO CONTINUE IN EXISTENCE ON A SOLVENT BASIS, THAT WOULD RESULT IN A BETTER RETURN FOR ITS CREDITORS OR SHAREHOLDERS THAN WOULD RESULT FROM THE IMMEDIATE LIQUIDATION OF SUCH COMPANY.

- THIS BUSINESS RESCUE PLAN IS AIMED AT ACHIEVING THE OBJECTIVES OF BUSINESS RESCUE. IN SIMPLE TERMS, AND WITHOUT DEROGATING OR SIMPLIFYING THE ESSENCE OF THE BUSINESS RESCUE PLAN AS CONTAINED IN THIS DOCUMENT, THE PROPOSAL PUT FORWARD IN THIS BUSINESS RESCUE PLAN IS AS FOLLOWS:

  - A COMPLETE OPERATIONAL TURNAROUND PLAN WHICH WILL SEE THE COMPANY CONTINUES IN BUSINESS RESCUE UNTIL THE OBJECTIVES OF THE TURNAROUND PLAN ARE ACHIEVED.

  - A DISPOSAL OPTION WHEREBY THE SHAREHOLDING IN THE COMPANY, ALTERNATIVELY, THE BUSINESS AND ALL ITS ASSETS ARE DISPOSED OF TO A PREFERRED BIDDER.

  - A STRUCTURED WIND-DOWN OF THE COMPANY SO AS TO ACHIEVE A BETTER RETURN OR OUTCOME FOR CREDITORS AS OPPOSED TO A WIND-DOWN OF THE COMPANY IN A LIQUIDATION.

- THE BRP BELIEVES THAT THIS BUSINESS RESCUE PLAN SHALL, UPON ITS IMPLEMENTATION, ACHIEVE A BETTER RETURN FOR CREDITORS THAN WOULD RESULT FROM AN IMMEDIATE LIQUIDATION OF THE COMPANY.
• WHAT FOLLOWS ARE THE SUBSTANTIVE TERMS AND CONDITIONS OF THE BUSINESS RESCUE PLAN.

[END OF SECTION]
1. **INTERPRETATION AND PRELIMINARY**

The headings of the clauses in this Business Rescue Plan are for the purpose of convenience and reference only and shall not be used in the interpretation of or modify or amplify the terms of this Business Rescue Plan nor any clause hereof. Unless a contrary intention clearly appears:

1.1. words importing –

   1.1.1. any one gender includes the other gender;

   1.1.2. the singular includes the plural and *vice versa*; and

   1.1.3. any person includes a natural or juristic person, firm, company, corporation, government, state, agency or organ of state, association, trust or partnership (whether or not having separate legal personality);

1.2. the following terms and/or expressions shall have the meanings assigned to them hereunder and cognate expressions shall have corresponding meanings –

   1.2.1. "**Adoption Date**" means the date upon which this Business Rescue Plan is approved in accordance with section 152(2), read with section 152(3)(b) and section 152(3)(c)(ii)(aa);

   1.2.2. "**Advisors**" means the advisors to the BRP, namely Hogan Lovells and their respective employees or representatives;

   1.2.3. "**Affected Person**" or "**Affected Persons**" shall bear the meaning ascribed to it in section 128(1)(a) and in relation to the Company means shareholders, creditors, employees of the Company and any registered trade unions representing employees of the Company;

   1.2.4. "**Blu Tower**" means Blu Tower Valuers Proprietary Limited, independent valuers, carrying on business from 6690 Pearl Acasia Loop, Amandasig, Pretoria, Gauteng Province of South Africa;

   1.2.5. "**BRP**" mean the business rescue practitioner appointed in terms of section 129(3)(b) of the Companies Act, being Mkhombo;

   1.2.6. "**Business**" means the business of the Company, being that of contract manufacturing and packaging of cosmetics, beauty products and toiletries (otherwise
also described as personal and home care products), on behalf of multinationals and local businesses;

1.2.7. “Business Day” means any day other than a Saturday, Sunday or official public holiday in South Africa and “Business Days” has a corresponding meaning;

1.2.8. “Business Rescue” means proceedings to facilitate the rehabilitation of the Company, which is Financially Distressed, as more fully set out in the Introduction section earlier in this document and defined in section 128(1)(b);

1.2.9. “Business Rescue Costs” means the remuneration and expenses of the BRP (including, without limitation, all and any legal costs and expenses incurred by the BRP in the Business Rescue) and all other claims arising out of the costs of the Business Rescue;

1.2.10. “Business Rescue Plan” means this document together with all of its annexures, as amended from time to time, prepared and published by the BRP for consideration and adoption by Creditors in accordance with section 150;

1.2.11. “CIPC” means the Companies and Intellectual Property Commission, established in terms of section 185;

1.2.12. “Claims” means any claim of whatsoever nature and howsoever arising against the Company, including a Secured, Preferent or Concurrent Claim as envisaged in terms of the Insolvency Act, the origin, cause of action or agreement in respect whereof arose or was concluded before the Substantial Implementation Date (and including each claim contemplated in this Business Rescue Plan) and without in any way derogating from the generality of the foregoing, shall include an actual, contingent, prospective, conditional or unconditional, liquidated or unliquidated, assessed or unassessed claim, whether due or yet to fall due for payment or performance, including any claim the origin of which arose from statute, regulation or other legislation or arising out of any contract and/or agreement entered into before the Commencement Date and cancelled thereafter and, in no way derogating from the generality of the foregoing, shall include any Claim for Tax or Taxation;

1.2.13. “Commencement Date” means 15 December 2017, being the date upon which Business Rescue commenced in accordance with section 129, read with section 132(1)(a)(i);
1.2.14. “Company” means Le-Sel Research (RF) Proprietary Limited, Registration No. 1987/001815/07, a private company incorporated in accordance with the laws of South Africa;

1.2.15. “Companies Act” means the Companies Act, 2008, as amended;

1.2.16. "Concurrent Claim" means any Claim which is unsecured and enjoys no preference in accordance with the Insolvency Act and "Concurrent Creditor" has the corresponding meaning;

1.2.17. "Contract Manufacturing Specialist" means Mr Peter Brierley, a consulting engineer in the employment of the Company;

1.2.18. "Contracts" means any right, title or interest of the Company in any contract, agreement or understanding entered into between the Company and a person before the Commencement Date;

1.2.19. “Creditors” means all persons, including legal entities and natural persons, having Claims;

1.2.20. “Creditors’ Committee” means the creditors committee, established on 11 January 2018 in terms of section 145(3) and with whom the BRP has engaged regularly in relation to the Business Rescue;

1.2.21. “Directors” means the directors of the Company as at the Commencement Date;

1.2.22. “Disputed Claim” means any Claim which may have been lodged by Creditors with the BRP during the Business Rescue and whose Claim has been rejected either in whole or in part by the BRP and which dispute shall be determined in favour of or against such Creditors in terms of the dispute mechanism contained in this document, including, inter alia, the Claims of those Creditors listed in Annexure C;

1.2.23. “Distribution” means the respective payments to be made to Creditors, to discharge their Claims, in accordance with the terms and conditions of this Business Rescue Plan read with the Companies Act;

1.2.24. “Employees” means all persons employed by the Company as at the Commencement Date and who remain employed at the Adoption Date;

1.2.25. "Employees Contracts" means any right, title or interest of the Company in any contract, agreement or understanding entered into before the Commencement Date
between the Company and any Employee for the employment of such Employee by the Company as an Employee;

1.2.26. “Employees’ Committee” means the committee and established on 11 January 2018 in terms of section 144(3)(c), to be used for the purposes of consulting with the Employees in terms of section 189(3), read together with section 189A, of the LRA;

1.2.27. “Encumbrance” means any claim, charge, mortgage, lien, burden, option, pledge, security, withholding, retention of title, right of pre-emption, right of first refusal or other third party rights or claims, restrictions on the free transferability or security interest or an agreement, arrangement or obligation to create any of the foregoing;

1.2.28. “Financially Distressed” shall bear the same meaning ascribed to this term in section 128(1)(f);

1.2.29. “Final Claims Date” means the final date for the filing of Claims, being 30 April 2018;

1.2.30. “Genesis” means Genesis Corporate Solutions (Pty) Ltd, Registration No. 2016/479741/07, a company incorporated in accordance with the laws of South Africa, herein represented by the BRP;

1.2.31. “Hogan Lovells” means Hogan Lovells (South Africa) Inc., attorneys practising as such at 140 West Street, Sandton;

1.2.32. “Insolvency Act” means the Insolvency Act, 1936 (as amended);

1.2.33. “IDC” means the Industrial Development Corporation of South Africa, Limited, Registration No. 1940/014201/06, a corporation established in terms of section 2 of the Industrial Development Corporation Act, 1940, as amended;

1.2.34. “LRA” means the Labour Relations Act, 1995, as amended;

1.2.35. “Mercantile Bank” means Mercantile Bank Limited (registration number: 1965/006706/06), a company with limited liability incorporated in accordance with the Companies Act, carrying on business as a registered bank;

1.2.36. “Mkhombo” means Phahlani Lincoln Mkhombo, a business rescue practitioner as defined in Regulation 126 to the Companies Act;

1.2.37. “Notice of Meeting” means the notice of meeting to all Affected Persons as contemplated in terms of section 151(2);
1.2.38. “Norton Rose Fulbright” means Norton Rose Fulbright South Africa Incorporated, attorneys practising as such at 15 Alice Lane, Sandton;

1.2.39. "Ordinary Shares" means shares with a par value of R1,00 each issued by the Company;

1.2.40. “PCF” means post-commencement finance as contemplated in section 135 of the Companies Act;

1.2.41. "PCF Claim" means any claim of whatsoever nature and howsoever arising against the Company (including, without limitation, PCF), the origin, cause of action or agreement in respect whereof arose or was concluded on or after the Commencement Date and without in any way derogating from generality of the aforesaid, shall include any actual, contingent, prospective, conditional or unconditional, liquidated or unliquidated, assessed or unassessed claim, whether due or yet to fall due for payment or performance, including any claim the origin of which arose from statute, regulation or other legislation or arising out of any contract and/or agreement entered into after the Commencement Date and, in no way derogating from the generality of the aforesaid, shall include any claim for Tax or Taxation and "PCF Creditor" has the corresponding meaning;

1.2.42. "Phuthuma" means Phuthuma Restructuring and Corporate Recovery Practitioners Proprietary Limited, with their business address at Menlo Gate, Mackenzie Street, Menlo Park, Pretoria, Gauteng;

1.2.43. "Preference Shares" means redeemable cumulative convertible preference shares issued in the share capital of the Company and subscribed for by the IDC on the terms and conditions contained in the Preference Share Subscription Agreement;

1.2.44. "Preference share Subscription Agreement" means the preference share subscription agreement concluded between IDC and the Company on or about 3 September 2015 in terms of which IDC subscribed for Preference Shares in the Company;

1.2.45. "Preferent Claim" means any Claim which is preferent in accordance with the provisions of the Insolvency Act and "Preferent Creditor" has the corresponding meaning;
1.2.46. "Principals" means entities on whose behalf and order, as the contract give or
customer, the Company, as the contract acceptor or principle manufacturer,
manufacture and packages an end product to an agreed specification;

1.2.47. "Proposed Operational Turnaround Plan" means the restructuring plan proposed
for the Company aimed at cutting costs, increasing productivity, reducing lead-times
between the receipt of an order and the delivery of a converted product, getting the
end product out a lot faster and managing production at all levels better, as outlined in
clause 17 of this Business Rescue Plain;

1.2.48. "Proposed Redundancy Plan" means (this is referred to in 7.2.3.4 and 7.2.3.5);

1.2.49. "Publication Date" means the date on which this Business Rescue Plan is published
to Affected Persons in terms of section 150(5);

1.2.50. "Rand" or “R” or “ZAR” means the lawful currency of South Africa;

1.2.51. "Receivable" means any claim of whatsoever nature which the Company has as at
the Adoption Date against any person indebted to it and includes any bank balances
and deposits, and any claim of whatsoever nature against SARS;

1.2.52. "Redefine" means Redefine Properties Limited (registration number
1999/018591/06), a company with limited liability incorporated in accordance with the
laws of South Africa and listed on the Johannesburg Securities Exchange;

1.2.53. “SARS” means the South African Revenue Service;

1.2.54. "Secured Claim" means any Claim which would be secured in accordance with the
Insolvency Act and "Secured Creditors" has the corresponding meaning;

1.2.55. "Shareholders" means the shareholders of the company at the Commencement
Date;

1.2.56. “South Africa” means the Republic of South Africa;

1.2.57. "Subscription and Shareholder Loan Agreement" means the subscription and
shareholder loan agreement concluded on 27 September 2016 between IDC and the
Company;

1.2.58. “Substantial Implementation Date” means the date upon which the BRPs files with
CIPC a notice that all of those events contemplated in this Business Rescue Plan
have occurred or been fulfilled for the implementation of this Business rescue Plan, whereupon Business Rescue will terminate;

1.2.59. “Tax/Taxation” means:

1.2.59.1. levies payable to government authorities;

1.2.59.2. normal taxation;

1.2.59.3. capital gains tax;

1.2.59.4. value-added tax;

1.2.59.5. any taxation arising from new assessments of taxation and/or the reopening of any income tax assessments of the Company for any period prior to the Commencement Date;

1.2.59.6. donations tax;

1.2.59.7. customs duty;

1.2.59.8. securities transfer tax;

1.2.59.9. all Pay-As-You-Earn taxation (PAYE) not paid over;

1.2.59.10. all other forms of taxation, other than deferred tax;

1.2.59.11. any penalties or interest on any of the foregoing;

1.2.60. “VAT” means the value-added tax levied in terms of the Value-Added Tax Act, No. 89 of 1991, as amended.

1.3. any reference in this Business Rescue Plan to:

1.3.1. a clause is a reference to the relevant clause of this Business Rescue Plan;

1.3.2. a Part is a reference to the relevant part of this Business Rescue Plan;

1.3.3. any section is a reference to that section in the Companies Act unless it is otherwise indicated in which event it shall be a reference to that legislation;

1.3.4. any section of the Insolvency Act is a reference to such section as read with chapter 14 of the Companies Act, 1973 and item 9 of schedule 5 of the Companies Act;
1.3.5. any reference to any statute, regulation or other legislation in this Business Rescue Plan shall be a reference to that statute, regulation or other legislation as at the Publication Date, and as amended or substituted from time to time;

1.3.6. if any provision in a definition in this Business Rescue Plan is a substantive provision conferring a right or imposing an obligation on any person or entity then, notwithstanding that it is only in a definition, effect shall be given to that provision as if it were a substantive provision in the body of this Business Rescue Plan;

1.3.7. where any term is defined in this Business Rescue Plan within a particular clause other than this clause 1, that term shall bear the meaning ascribed to it in that clause wherever it is used in this Business Rescue Plan;

1.3.8. where any number of days is to be calculated from a particular day, such number shall be calculated as excluding such particular day and commencing on the next day. If the last day of such number so calculated falls on a day which is not a Business Day, the last day shall be deemed to be the next succeeding day which is a Business Day;

1.3.9. any reference to days (other than a reference to Business Days), months or years shall be a reference to calendar days, months or years, as the case may be; and

1.3.10. words or terms that are capitalised and not otherwise defined in the narrative of this Business Rescue Plan (excluding capitalised words or terms used for the purpose of tables) shall bear the meaning assigned to them in the Companies Act.

[END OF SECTION]
2. COMPANY INFORMATION

As at the Publication Date:

2.1.1. the authorised share capital of the Company comprises of 200,000 Ordinary Shares and 200,000 Preference Shares;

2.1.2. the issued share capital of the Company comprises 26,704 Ordinary Shares, held as follows:

<table>
<thead>
<tr>
<th>No</th>
<th>Shareholder</th>
<th>Ordinary Shares</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gary Fordham Family Trust (IT5083/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Robert Frodsham Family Trust (IT5080/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Andrew Frodsham Family Trust (IT5082/97)</td>
<td>10,899</td>
<td>40.8%</td>
</tr>
<tr>
<td>4</td>
<td>Paul Frodsham Family Trust (IT10065/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Frodsham Family Trust (IT8147/95)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Industrial Development Corporation (IDC)</td>
<td>6,704</td>
<td>25.1%</td>
</tr>
<tr>
<td>7</td>
<td>Le-Sel Management Investment Trust (IT2559/09)</td>
<td>1,600</td>
<td>6%</td>
</tr>
<tr>
<td>8</td>
<td>Trinitas Fund General Partner Proprietary Limited</td>
<td>7,501</td>
<td>28.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>26,704</td>
<td>100%</td>
</tr>
</tbody>
</table>

2.1.3. the Frodsham family, jointly, held 40.8% of the Ordinary Shares, with the IDC holding 25.1% of the Ordinary Shares;

2.1.4. IDC holds 1 Preference Share in the Company;

2.1.5. the IDC and the Company concluded the Subscription and Shareholder Loan Agreement for the subscription by the IDC of 100,000 Ordinary Shares at an aggregate value of R100,000 and the provision of a shareholder loan in the amount of R999,900;
2.1.6. the Subscription and Shareholder Loan Agreement is, and remains, subjected to the fulfilment of various suspensive conditions, one of them being that all necessary governmental and regulatory approvals and consents required for the implementation of the subscription by the IDC of additional Ordinary Shares shall have been obtained;

2.1.7. the Competition Tribunal of South Africa, on 1 March 2018, approved the merger between the IDC and the Company and issued a merger clearance certificate;

2.1.8. the consent of the Minister of Economic Development remains outstanding, as does a few other suspensive conditions which will be fulfilled when the consent is provided; and

2.1.9. and on the assumption that the suspensive conditions are fulfilled, in addition to the 1 Preference Share held by IDC, the issued share capital of the Company will comprise 141,704 Ordinary Shares, held as follows:

[GO TO NEXT PAGE]
<table>
<thead>
<tr>
<th>No</th>
<th>Shareholder</th>
<th>Number of Ordinary Shares held</th>
<th>Percentage of Ordinary Shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gary Fordham Family Trust (IT5083/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Robert Frodsham Family Trust (IT5080/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Andrew Frodsham Family Trust (IT5082/97)</td>
<td>25,899</td>
<td>18.3%</td>
</tr>
<tr>
<td>4</td>
<td>Paul Frodsham Family Trust (IT10065/97)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Frodsham Family Trust (IT8147/95)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Industrial Development Corporation (IDC)</td>
<td>106,704</td>
<td>75.3%</td>
</tr>
<tr>
<td>7</td>
<td>Le-Sel Management Investment Trust (IT2559/09)</td>
<td>1,600</td>
<td>1.1%</td>
</tr>
<tr>
<td>8</td>
<td>Trinitas Fund General Partner Proprietary Limited</td>
<td>7,501</td>
<td>5.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>141,704</td>
<td>100%</td>
</tr>
</tbody>
</table>

2.2. Directors

2.2.1. As at the Publication Date, the Directors are:

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Active or Resigned</th>
<th>Position</th>
<th>Date of Appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Willem Hendrik Fourie</td>
<td>Active</td>
<td>Chief Executive Officer</td>
<td>15 June 2016</td>
</tr>
<tr>
<td>Andrew Donald Frodsham</td>
<td>Active</td>
<td>Chief Operations Officer</td>
<td>19 December 1995</td>
</tr>
<tr>
<td>Selwyn John Grimsley</td>
<td>Active</td>
<td>Chief Financial Officer</td>
<td>21 April 2016</td>
</tr>
<tr>
<td>Jithandra Bridgmohan</td>
<td>Active</td>
<td>Chairperson of Board</td>
<td>25 November 2016</td>
</tr>
<tr>
<td>Soteris Theorides</td>
<td>Active</td>
<td>Non-Executive Director</td>
<td>1 August 2008</td>
</tr>
<tr>
<td>Zoliswa Linda Copiso</td>
<td>Active</td>
<td>Non-Executive Director</td>
<td>17 November 2016</td>
</tr>
</tbody>
</table>

2.2.2. None of the Directors have resigned since the Commencement Date and, according to the records of CIPC, all the Directors listed in clause 2.2.1 remain in office as at the Publication Date.
2.3. **Company Information**

- **Financial Year:** 30 June
- **Registered Business Address and Head Office:** 1 New Road, Grand Central, Halfway House, Midrand, Gauteng Province of South Africa
- **Auditors:** BDO South Africa  
  Pretoria Office  
  Audit Partner: Martin McGarrigle

3. **COMPANY BACKGROUND**

3.1. **Background to the Company**

3.1.1. Donald Fordsham started a branded cosmetics and household production company in Zimbabwe under the name of Wallace Laboratories. The company was small, but experienced initial success due to the founder's effort and work ethics. The Fordsham family subsequently immigrated to South Africa and set up a similar but smaller operation in Polokwane (then known as Pietersburg). This new business in South Africa was named Labnor.

3.1.2. The new South African business showed immediate signs of growth and, in 1983, Labnor acquired Penta Products in Wadeville, Johannesburg. In the early days of the business, Labnor and Penta both focused on the production of a "Dark and Lovely" product for the Carsen Group.

3.1.3. Annual turnover in the business soon reached R1.8 million. In that year, Donald Fordsham passed away and his son, Andrew, took the reins of the business. The two business operations were consolidated into one operation based in Midrand and re-named as Le-Sel Research.

3.1.4. The focus of the Company shifted from a mix of owned brands and contracting, to exclusive contracting, a first such venture in South Africa. The major business objectives were re-aligned and management began focusing its energy and efforts on taking a leadership position in the contract manufacturing space in South Africa. This vision entrenched a drive to develop a total service and quality system to a level not
seen before in the contract manufacturing industry and to bill facilities to a standard that would effectively become a barrier to entry into that industry or market.

3.1.5. The accelerated growth of the Company saw its client base grow to over 40 Southern-African outsourcing clients. In 2003 the strategy of the Company shifted into a new direction resulting in the reduction of its client base significantly to roughly 16 clients, but allowing the Company to focus on its service to its clients and increase its growth potential in the market. This, over the subsequent years, strengthened the position of the Company as the largest contract manufacturer of toiletries and cosmetics in Southern Africa.

3.1.6. The Company was registered on 29 April 1987, under the registered name Le-Sel Research (RF) Proprietary Limited with registration number 1987/001815/07.

3.1.7. The initials "RF" in the name of the Company signify the ring-fenced nature of the Company, with the consequence that certain powers which ordinarily vested in the board of Directors were transferred to shareholders.

3.1.8. The main business of the Company is that of contract manufacturing and packaging of cosmetics, beauty products and toiletries (otherwise also described as personal and home care products), on behalf of multinationals and local businesses.

3.1.9. The Company has two (2) subsidiaries which are 100% owned by the Company, namely, Biz Afrika 884 Proprietary Limited (Biz 884) and Biz Afrika Beauty Factory Proprietary Limited (Beauty Factory).

3.1.10. Biz 884 is a leaseholder of a packaging warehouse and aerosol plant, and the owner of aerosol manufacturing assets i.e. those assets constituting the aerosol plant. It is also under business rescue supervision with Mkhombo as the appointed business rescue practitioner. The acquisition of the aerosol manufacturing assets was funded by way of a loan advanced by the Company to Biz 884, which loan remains outstanding. In order to extract the repayment of the outstanding loan obligations of Biz 884 to the Company, it will be prudent and commercially beneficial to include the aerosol manufacturing assets in any disposal transaction involving the Company. That will result in the disposal of the Company's assets and those of Biz 884 with the proceeds allocated for the aerosol manufacturing assets utilised to discharge in whole or in part the loan owing by Biz 884 to the Company.
3.1.11. Beauty Factory is a retail outlet from where many branded products manufactured by the Company are sold. Beauty Factory is also under business rescue supervision with Mkhombo as the appointed business rescue practitioner. It is also a wholesaler of branded items to retail outlets like Edgars and Cotton On. Until recently, it also supplied branded products to Pick n Pay.

3.1.12. As at the Commencement Date, arising from the withdrawal of services provided by LSC Staffing Solutions Proprietary Limited, the Company had approximately 242 permanent employees and approximately 104 part-time employees.

3.1.13. In the preparation of this Business Rescue Plan, and this Part A in particular, the BRP and the Advisors have relied on factual information provided by Management and Directors and, accordingly, shall not be held responsible for the accuracy thereof.

3.2. **Background to the Company’s Financial Distress**

3.2.1. The main reasons for the Company becoming Financial Distressed, as set out in the documents filed with CIPC for the commencement of this Business Rescue, can be summarised as follows:

3.2.1.1. the Company has been loss making since 2014.

3.2.1.2. in particular, the poor financial performance of the Company was attributable, amongst other things to the following factors:

   (a) the business model that the Company operated upon was based on the Company procuring all materials and converting these to finished product on behalf of a number of brand-owning Principals. This is known as the “fully sourced” model. In this instance, the Company was faced with increasing price pressures from a limited number of suppliers and declining currency rates for imported materials. It was impossible to fully recover this cost-push from the Principals, who themselves are faced with pressure from the retailer concentration to constrain price increases to the published inflation range. To an extent, the superior margins of the Principals enabled them to absorb similar price increases;

   (b) the declining credit-worthiness of the Company resulted in many suppliers placing the Company on cash-with-order or cash-on-delivery terms, placing great strain on the Company’s cash resources. In order
to partially alleviate this cash starvation, the Company was forced to discount invoices to provide cash-flow. This further impacted margins by the erosion of the Company's profitability or margin on the invoice;

(c) large minimum order quantity demands from suppliers further exacerbated the situation, resulting in the Company having to procure large quantities of materials and holding these for a significant period without payment for conversion of these materials;

(d) in order to improve margins, and to have more perceived control over its own destiny, the Company decided to develop its own brands for the retail market and launched the Beauty Factory range of products and retail outlets. This resulted in two major issues: loss of focus on the core business and a significant cash-trap in the form of inventory for stock.

(e) consequent on the declining margins and cash-flow, the Company then started to neglect critical issues such as maintenance of its plant and CAPEX requirements for the improvement of its plant. As a result of this, poor equipment performance, poor output against target, poor labour efficiencies and poor conversion yields have further exacerbated the situation with escalating costs and poor delivery outputs to Principals;

(f) the Company moved towards a “free-issue” business model (where the Principals source and pay for the materials required for the manufacture and packaging of their products) with some of its Principals. As this was only a partial move it did not reverse the poor performance of the business. In addition, because of a lack of formal systems to permit a seamless transition into a "free issue" model, this move actually made the situation worse in some instances as materials were not provided on time for conversion resulting in significant overtime typically during the last weeks of a month to catch up the back-log that developed over the month;

(g) the consolidation of brands amongst the Principals resulted in a steep change in volume in 2013 which precipitated loss making in 2014(volumes have since recovered substantially);
(h) on the fully sourced model, there was a large fixed cost base;

3.2.1.3. the poor performance of the Company escalated to such a point that in December 2017, prior to the board filing for business rescue, management appointed a specialist in the contract manufacturing to develop a turnaround plan;

3.2.1.4. notwithstanding the intervention by management to develop a turnaround plan, on 13 December 2017, management advised that the Company did not have sufficient funding to meet its financial obligations in the short term, and accordingly the board of the Company resolved to place the Company in Business Rescue;

3.2.1.5. in summary, the "fully sourced" business model and its liquidity pressures on the Company, unfavourable pricing pressures and demands from Principals, internal constraints with particular emphasis on the maintenance and CAPEX requirements and the shift of focus to the development of own brands largely contributed to the decline of the fortunes and profitability of the Company.

4. SUMMARY OF THE BUSINESS RESCUE

4.1. Introduction and Business Rescue Timeline

Business Rescue, as defined in section 128(1)(b), refers to proceedings to facilitate the rehabilitation of a company that is Financially Distressed by providing for –

4.1.1. the temporary supervision of a company by one or more business rescue practitioners, and of the management of its affairs, business and property;

4.1.2. a temporary moratorium on the rights of claimants against a company or in respect of property in its possession; and

4.1.3. the development and implementation, if approved, of a plan to rescue the company in question by restructuring its affairs, business, property, debt and other liabilities, and equity in a manner that maximises the likelihood of the company in question continuing in existence on a solvent basis or, if it is not possible for the company to so continue in existence, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.
4.1.4. The following summary sets out the salient dates on which certain events have taken and will take place during Business Rescue –

<table>
<thead>
<tr>
<th>EVENT</th>
<th>DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Resolution commencing Business Rescue filed with CIPC.</td>
<td>15 December 2017</td>
</tr>
<tr>
<td>Appointment of BRP</td>
<td>15 December 2017</td>
</tr>
<tr>
<td>First Employees' Meeting</td>
<td>03 January 2018 &amp; 11 January 2018</td>
</tr>
<tr>
<td>First Creditors' Meeting</td>
<td>03 January 2018 &amp; 11 January 2018</td>
</tr>
<tr>
<td>First Creditors Committee Meeting</td>
<td>15 February 2018</td>
</tr>
<tr>
<td>First Employees' Committee Meeting</td>
<td>16 February 2018</td>
</tr>
<tr>
<td>Second Employees' Committee Meeting</td>
<td>23 February 2018</td>
</tr>
<tr>
<td>Second Creditors Committee Meeting</td>
<td>06 March 2018</td>
</tr>
<tr>
<td>Third Employees' Committee Meeting</td>
<td>08 March 2018</td>
</tr>
<tr>
<td>Third Creditors Committee Meeting</td>
<td>22 March 2018</td>
</tr>
<tr>
<td>Publication of Business Rescue Plan published</td>
<td>30 March 2018</td>
</tr>
<tr>
<td>Publication of Notice of Meeting to consider the Business Rescue Plan (in terms of section 151 of the Companies Act)</td>
<td>5 April 2018</td>
</tr>
<tr>
<td>Section 151 meeting to consider published BR Plan</td>
<td>16 April 2018</td>
</tr>
</tbody>
</table>

5. STEPS TAKEN SINCE THE APPOINTMENT OF THE BRP

5.1. ADMINISTRATIVE MATTERS

5.1.1. Appointment of BRP

The BRP was appointed by CIPC on 15 December 2017.

5.1.2. Management Control

In terms of section 140(1)(a), the BRP took over full management control of the Company but, as he was entitled to do, delegated certain functions to existing members of management of the Company.
5.1.3. **Reporting to CIPC and Affected Persons**

5.1.3.1. The BRP complied with all statutory obligations under the Companies Act and will render monthly reports to CIPC as contemplated in section 132(3).

5.1.3.2. The first such report was submitted by the BRP to CIPC and Affected Persons on 15 March 2018. This report has, as with all other notices issued by the BRP, been posted on the Company's website ([www.lesel.co.za>BusinessRescue](http://www.lesel.co.za>BusinessRescue)).

5.1.4. **Blu Tower and Phuthuma Appointed to Calculate Potential Liquidation Dividend**

5.1.4.1. The BRP appointed Blu Tower, as independent valuer, to value the new replacement costs, open market value and forced sale value of the Company's plant and equipment, office furniture and equipment and stock.

5.1.4.2. The BRP appointed Phuthuma, a restructuring and corporate recovery practitioner, as an independent expert to calculate the potential liquidation dividend that may have been realised if the Company had been placed into liquidation as at Commencement Date, to determine a fair and reasonable estimate of the return to each Secured Creditor, Preferent Creditor and Concurrent Creditor if the Company was liquidated.

5.1.4.3. Phuthuma's mandate was to act as independent experts. As will more fully appear below if the Company had been placed into liquidation as at Commencement Date, Concurrent Creditors would have received a dividend of 0c (zero cents) in the Rand.

5.1.4.4. If the Company had been placed into liquidation as at Publication Date, concurrent creditors would have received a dividend of 0c (zero cents) in the Rand.

5.1.4.5. The figures in the liquidation scenario take into account the costs associated with a liquidation, as calculated in terms of Section 89 of the Insolvency Act. The dividend projection is also based on historical values and amounts, as at Commencement Date, of stock, debtors and raw materials of the Company. The stock, debtors and raw materials of
the Company have, since the Commencement Date, been sold to Principals, with the cash realised used to reduce the Company's overdraft facility with Mercantile Bank and to meet the funding requirements for continued operations since the Commencement Date.

5.1.5. Extension for Publication of Business Rescue Plan

In terms of section 150(5), the Business Rescue Plan was required to be published within 25 (twenty-five) Business Days from the appointment of the BRP. The BRP obtained an extension from the Creditors, as contemplated in section 150(5)(b), for the publication of the Business Rescue Plan first to 28 February 2018 and then to 30 March 2018.

5.1.6. Publication of Notice of Meeting and Business Rescue Plan

5.1.6.1. This Business Rescue Plan will be published to all Affected Persons on 30 March 2018.

5.1.6.2. Publication will take place in the following manner:

(a) via email to all known Creditors, to the extent that the email addresses of known Creditors are available;

(b) publication on the website of the Company;

(c) copies will be available at the registered office of the Company, from Catherine Spinks, from 08:00 to 16:00, between Mondays and Fridays; and

(d) copies will also be available from the offices of Hogan Lovells, from Charleen van Blerk, from 08:00 to 16:00, between Monday and Fridays.

5.2 EMPLOYEES

5.2.1 Employees’ Meeting:

A first meeting with the Employees was convened on 3 January 2018 and adjourned, due to it falling during the holiday season, until 11 January 2018. During this meeting:
5.2.1.1 the business rescue process was explained, and possible outcomes were presented to the Employees;

5.2.1.2 assistance was also given to the Employees by providing answers to various questions and concerns arising from the Business Rescue;

5.2.1.3 Employees formed the view that there was a reasonable prospect of rescuing the Company (and implored on the BRP to rescue the Company).

5.2.2 Employees Committee:

5.2.2.1 At the first meeting of Employees of the Company, nominations were requested for the establishment of an Employees’ Committee, An Employees Committee was established comprising of operational and factory Employees. It should be noted that none of the Employees are affiliated to any trade unions.

5.2.2.2 The Employees’ Committee met on 16 February 2018, 23 February 2018 and 08 March 2018. It met again on 23 March 2018 during which aspects of this Business Rescue Plan were tabled and explained.

5.2.3 Lay-off and Section 189 of the LRA Process

5.2.3.1 No Employee has been laid-off since the Commencement Date

5.2.3.2 Notwithstanding the fact that none of the Employees of the Company have been laid-off, it is apparent that the Company’s existing operational requirements would not be met by the Company’s current organisational structure.

5.2.3.3 More particularly, for the Business Rescue to be successful, and for liquidation to be avoided, it will be necessary for the Company to reduce its costs significantly.

5.2.3.4 The Company has formed the view that the best way for the Company to reduce its costs significantly in order for the Business Rescue efforts to be successful, and for liquidation to be avoided, is by the Company reducing the number of positions in its executive and operational
organisational structure and implementing a curtailed operating model, being the Proposed Redundancy Plan.

5.2.3.5 As a result, there appear to be certain positions at executive and operational level that would be potentially affected as a result of the Proposed Redundancy Plan.

5.2.3.6 Once this Business Rescue Plan is adopted, the Company will commence with the statutory facilitated consultative process in terms of section 189 of the LRA. The Company will, for a minimum period of 60 (sixty) days as prescribed in terms of the LRA, consult with the consulting parties, on all the issues that would be set out in a prescribed notice required in terms of section 189(3) of the LRA. This consultation process will be facilitated by a Commissioner from the Commissioner for Conciliation, Mediation and Arbitration (CCMA).

5.3 CREDITORS

5.3.1 Creditors’ Meeting:

5.3.1.1 A first meeting of Creditors, as contemplated in section 147, was convened on 3 January 2018 and adjourned, due to it falling during the holiday season, until 11 January 2018 (“the First Meeting”).

5.3.1.2 At the First Meeting:

5.3.1.2.1 the business rescue process was explained and possible outcomes were presented to the Creditors;

5.3.1.2.2 assistance was also given to the Creditors by providing answers to various questions;

5.3.1.2.3 claims were submitted by Creditors; and

5.3.1.2.4 a Creditors Committee was formed.

5.3.1.3 The BRP expressed the view that there was a reasonable prospect of rescuing the Company.
5.3.2 Creditors' Committee

5.3.2.1 As set out above, at the First Meeting, a Creditors’ Committee was formed.

5.3.2.2 The Creditors’ Committee comprises of members who are able to provide advice to the BRP in respect of the Company.

5.3.2.3 The Creditors’ Committee has consulted with the BRP on three occasions, and will, in advance of the Publication Date, be engaged by the BRP on material aspects of this Business Rescue Plan.

5.4 LEGAL

5.4.1 Court Application

5.4.1.1 The Company is involved in litigation against Johannesburg Water SOC Limited (Johannesburg Water) emanating from Johannesburg Water's threat to disconnect water supply to the Company on account of the Company's failure to pay Johannesburg Water for industrial effluent charges raised by Johannesburg Water against the Company.

5.4.1.2 On 21 December 2017, after the Company and Johannesburg Water were unable to reach an amicable settlement on the outstanding industrial effluent charges payable by the Company to Johannesburg Water, the Company and the BRP launched an urgent application in the Johannesburg High Court for an interdict preventing Johannesburg Water from disconnecting the water supply to the Company. The Company and the BRP are, inter alia, of the view that the amount payable by the Company to Johannesburg Water for industrial effluent charges forms part of the legal moratorium triggered on the Commencement Date in terms of section 133 just as much as it is applicable to all other Creditors. The urgent application for the interdict was enrolled for hearing in the Johannesburg High Court on 22 December 2017.

5.4.1.3 The hearing of the application was postponed until 13 February 2018 with the Johannesburg High Court ordering, on an interim basis, that Johannesburg Water was not to disconnect the supply of water pending the hearing and outcome of the urgent interdict application.
5.4.1.4 The urgent interdict application was heard by the Johannesburg High Court on 13 February 2018. Subsequent to the hearing, the court delivered a written judgment dismissing the application by the Company and the BRP for an interdict to prevent Johannesburg Water from disconnecting the water supply, ordering the Company to pay the costs occasioned by the dismissal of the application.

5.4.1.5 The Company and the BRP have delivered a notice of application for leave to appeal the judgment dismissing the application by the Company and the BRP for an interdict.

5.4.1.6 Johannesburg Water has since delivered a notice of cross-appeal against the judgment and an application in terms of section 18 of the Superior Courts Act, 2013, seeking leave to disconnect the water supply pending the Company’s appeal against the dismissal of the application.

5.4.1.7 The Company and the BRP will oppose the application made by Johannesburg Water for leave to disconnect the water supply pending the Company’s appeal.

5.4.1.8 This litigation involving the Company and BRP, on the one hand, and Johannesburg Water on the other hand, is continuing. Affected Persons are required to monitor the status of this litigation by way of updated reports that will be circulated by the BRP and published on the Company’s website (www.lesel.co.za>BusinessRescue).

5.4.2 **Suspension of Contracts**

5.4.2.1 Section 136(2)(2) authorises the BRP during Business Rescue to entirely, partially or conditionally suspend, for the duration of the business rescue proceedings, any obligation of the Company that arises under an agreement to which the Company was a party at the Commencement Date and would otherwise become due during the Business Rescue.

5.4.2.2 As at the Publication Date, the BRP has not suspended the Company’s obligations in terms of any agreement to which the Company is a party.
5.4.3 **General**

The BRP was required to engage the Advisors on, *inter alia*, issues relating to:

5.4.3.1 employment;

5.4.3.2 competition;

5.4.3.3 tax;

5.4.3.4 regulatory issues;

5.4.3.5 contractual disputes;

5.4.3.6 PCF;

5.4.3.7 PCF agreements;

5.4.3.8 the disposal process;

5.4.3.9 claims against the company; and

5.4.3.10 various issues arising out of the business rescue.

5.5 **BUSINESS RESCUE INITIATIVES**

5.5.1 **Continuation with Turnaround Plan**

Although the Proposed Operational Turnaround Plan was initiated by the Company prior to the Commencement Date, the BRP has utilised the expertise of the Contract Manufacturing Specialist that was appointed by management as well as the concepts developed in the Proposed Operational Turnaround Plan during Business Rescue.

5.5.2 **Sales Process**

A preliminary sales process was embarked upon, with various parties submitting an initial expression of interest and given access to a data room, more details of which are set out in Part B.

5.5.3 **Post Commencement Finance**

5.5.3.1 On 22 December 2017, IDC granted PCF, on an unsecured basis, to the Company in the amount of R14,169,736.00
5.5.3.2 The PCF was utilised by the BRP, to inter alia, make payment of salaries and wages for the month of December 2017 and to pay operational expenses and amounts required to complete purchase orders that the Company had committed to its Principals.

5.5.3.3 Mercantile Bank granted an unsecured overdraft facility of R3,000,000 as PCF after its pre-Commencement Date overdraft facility was extinguished.

5.5.3.4 All unpaid Tax from 1 January 2018 shall constitute PCF in the Business Rescue.

5.5.3.5 All unpaid rentals and utility charges from 1 January 2018 shall constitute unsecured PCF in the Business Rescue. The Company has, as at the Publication Date, made certain payments in reduction of:

5.5.3.5.1 rental and utility charges for January and February 2018, leaving a balance outstanding and ranking as unsecured PCF in the Business Rescue;

5.5.3.5.2 rental for March 2018, leaving utility charges outstanding and ranking as unsecured PCF in the Business Rescue (although it is the intention of the Company to discharge the utility charges as soon as the cash flow situation permits further payments to be made).

6 TRADING ACTIVITIES FOLLOWING THE COMMENCEMENT DATE

6.1 Principals

6.2.1 The Company has continued trading with the support of its Principals who supported the Company prior to the Commencement Date. This has been a key focus of the BRP in this Business Rescue.

6.2.2 With the exception of reduction in production volumes during January and February 2018 due to the lack of PCF, the relationship with the Principals now continues at volumes similar to those prior to Business Rescue. However trading has been hampered by the lack of funding due to the delays in finalising the PCF arrangement between the Company, the Principals and Mercantile Bank. The delay caused
operations to come to a standstill, and this contributed to a backlog in production and delivery outputs.

6.2.3 This delay in PCF has severely disrupted operations and resulted in certain volumes being placed elsewhere by the Principals. It is anticipated that once the operations settle back into normal patterns, these volumes will return as it is not cost-effective to produce these elsewhere.

6.2.4 Certain teething problems have also been experienced with the move to the "free-issue" business model, but this is normalising.

6.2.5 The Principals have been very supportive during this period and have funded activities by buying back inventories in addition to agreeing to a "free-issue" model going forward.

6.2.6 One of the Principals has recently agreed to place a new project with the Company, as an expression of faith in the Company, which has the potential of adding to the inflow of income in the next 2 to 3 months.

6.2.7 The primary focus of the Company and the BRP, since the Commencement Date, has been to ensure operational stability and output of purchase orders. This has been difficult to achieve without consistent PCF availability, but has now been made possible with the transition of operations from a "fully sourced" to a "free issue" business model. While this conversion has had its own challenges (for instance, the delays experienced in the supply and availability of raw and packaging materials), production is slowly returning to a stable level.

6.2 Trade and Other Creditors

6.2.8 Although trade and other creditors have been largely supportive of the on-going operations, this has been done on a strictly cash-with-order or cash-on-delivery basis. Understandably, this has laced a strain on cash resources given the above-mentioned problems with PCF. Given that situation, the Principals have agreed to source, approve and pay for all raw materials required, this transferring the Cash Flow strain from the Company to the Principals.

6.2.9 The approval process for all expenditure has been rigorously policed and the agreed protocols for approval strictly adhered to between the Company, the Principals and the Suppliers.
6.2.10 An advantage of this system has been that more favourable pricing has been able to be negotiated in many cases due to the up-front payment, all for the benefit of the Principals.

7 MATERIAL ASSETS OF THE COMPANY AT BOOK VALUE AS AT THE COMMENCEMENT DATE (INCLUDING ESTIMATED REALISATION VALUE ON LIQUIDATION)

7.1 A list of the categories of material assets of the Company at book value, as at the Commencement Date, is attached hereto as Annexure A.

7.2 On further analysis, and after taking into account developments since the commencement of this Business Rescue, the following must be noted as regards the assets of the Company:

7.2.1 Assets (plant, furniture and equipment)

According to the independent valuation conducted by Blu Towers, a fair assessment of the value of these assets is as follows:

7.2.1.1 Plant and machinery

7.2.1.1.1 Estimated new replacement cost: R105,084,100

7.2.1.1.1.1 Depreciated replacement cost: R50,158,975

7.2.1.1.2 Open market value: R23,284,550

7.2.1.1.3 Forced sale value: R8,398,450

7.2.1.2 Office furniture and Equipment

7.2.1.2.1 Open Market Value: R1,117,060

7.2.1.2.2 Forced Sale Value: R315,870

7.2.1.3 The total book value of the assets of the Company, at the Commencement Date, is R77,260,301. This value does not include the realistic value of the assets, based on a going concern basis, after taking into account the operational condition of the assets and output capacity particularly that of the plant and machinery used on a daily basis for the business operations of the Company.
7.2.1.4  Mercantile Bank holds a first ranking security position over all the movable assets of the company in terms of a special and general notarial bond registered over the movable assets to the value of R138,000,000. As previously mentioned, Mercantile Bank perfected its security position prior to the Commencement Date, and continues to retain that perfected security position as a secured creditor. Mercantile Bank is, as at the Publication Date, owed a total of cR50,000,000 plus an unsecured PCF amount, on an unsecured overdraft facility, of R3,000,000.

7.2.1.5  The IDC holds a second ranking, unperfected, security position in terms of a general notarial bond registered over the assets to the value of R50,000,000. This renders the IDC as a Preferent Creditor.

7.3  Receivables

7.3.1  Other than receivables recoverable from the Principals (which are paid by the Principals in the ordinary course of business), the Company has the following receivables on its books:

- Beauty Factory (see note 1)  R11,572,137
- CJ Sales (see note 2)  R2,174,322
- Eli-Bionatural (see note 3)  R1,097,390

**Note 1:** This amount is most likely irrecoverable. Beauty Factory is also under business rescue supervision. For any amount to be recoverable and paid towards the reduction of this amount owing by Beauty Factory to the Company, the business inclusive of all its assets must realise in excess of R13 million. As of the Publication Date, Mkhombo has received an offer of R2,750,000 for the business inclusive of all assets of Beauty Factory. Mercantile Bank has approved the offer. It is therefore unlikely that Mercantile Bank will receive full settlement of its Secured Claim against Beauty Factory.

**Note 2:** This debtor paid an amount of R200,000 in partial reduction of its debt to the Company on 28 February 2018. Negotiations are on-going on the discharge of the balance of the amount owing.

**Note 3:** Litigation is pending between the Company and this debtor for the recovery of the amount owing. The BRP is also in discussions with this debtor on a possible settlement of the amount owing. In addition to the debtor amount the Company holds converted stock produced on behalf of the debtor to the value of approximately R2,500,000. The Company also has raw materials, sourced and fully paid for, on behalf of the debtor to the
value of approximately R270,000. The BRP has included this stock and raw materials in his settlement discussions with the objective of unlocking cash for the benefit of the Company.

7.3.1.1 All receivables, including on-going receivables generated by the Company during its trading operations in Business Rescue, continue to form part of the encumbrance in favour of Mercantile Bank, as a first ranking security, and then to IDC, as a second ranking security.

7.3.1.2 The receivable outlined in clause 7.2.2.1 above must be impaired and treated as:

7.3.1.2.1 irrecoverable in respect of Beauty Factory; and

7.3.1.2.2 doubtful in respect of CJ Sales and Eli-Bionatural.

7.3.2 Inventory

7.3.2.1 The inventory of the Company, as at the Commencement Date, was sold during the Business Rescue to the Principals, with the amounts realised being applied towards the discharge of Mercantile Bank’s secured overdraft facility.

7.3.2.2 As at the Publication Date, the estimated value of inventory held by the Company is approximately R24,000,000.00. It is realisable in the ordinary cause at R12,000,000.00, and realisable in a forced sale at R5,000,000. This inventory is made up primarily of packaging materials and surplus raw materials acquired to produce client orders together with materials acquired for production of the Company’s and Beauty Factory’s branded products. This surplus material and packaging materials have little value outside their immediate use, which is the production of branded products. Hence the low forced value of their products.

8 CREDITORS OF THE COMPANY AS AT THE COMMENCEMENT DATE

8.1 A list of the Creditors of the Company, as reflected in the Company’s records, as at the Commencement Date, is attached hereto as Annexure B.

8.2 As required in terms of the Companies Act, Annexure B indicates which of the aforesaid Creditors:
8.2.1 would qualify as a Creditor in terms of the laws of insolvency as set out in the Insolvency Act;

8.2.2 have proved their claims; and

8.2.3 would be entitled to exercise a voting interest in the Business Rescue and the percent of such voting interest determined and calculated in terms of the Companies Act, according to the amount approved by the BRP.
8.3 The composition and security of the Creditors, as at Commencement Date, derived from the list attached as Annexure B, was as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Secured</th>
<th>Preferent</th>
<th>Concurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mercantile Bank:</strong></td>
<td></td>
<td></td>
<td></td>
<td>85,580,000</td>
</tr>
<tr>
<td>MTL (Company)</td>
<td>34,500,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MTL (Beauty Factory)</td>
<td>11,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdraft (Company)</td>
<td>32,500,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdraft (Beauty Factory)</td>
<td>2,300,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset based (Company)</td>
<td>2,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redefine guarantee (Company)</td>
<td>3,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card (Company)</td>
<td>280,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SARS</td>
<td>10,300,000</td>
<td></td>
<td>10,300,000</td>
<td></td>
</tr>
<tr>
<td>Trade Creditors</td>
<td>125,000,000</td>
<td>125,000,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDC MSEP Loan</td>
<td>20,000,000</td>
<td></td>
<td>20,000,000</td>
<td></td>
</tr>
<tr>
<td>IDC Loans</td>
<td>30,000,000</td>
<td>222,000,000</td>
<td>252,000,000</td>
<td></td>
</tr>
<tr>
<td>Shareholders of related party Loans</td>
<td>46,000,000</td>
<td></td>
<td>46,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>85,580,000</td>
<td>60,300,000</td>
<td>393,000,000</td>
<td>538,880,000</td>
</tr>
</tbody>
</table>

8.4 Mercantile Bank security

8.4.1 Mercantile Bank provided an overdraft facility to the Company limited to a facility amount of R32,500,000. In addition, Mercantile Bank advanced a medium-term loan (MTL) facility of R34,500,338, and an asset-based finance facilities, to the Company, in the aggregate amount of R1 999 801. The Company also had credit card facility limited to R350,000.
8.4.2 Mercantile Bank advanced a separate overdraft facility to Beauty Factory, a wholly-owned subsidiary of the Company, of R3,035,000, and a MTL facility of R11,072,929.

8.4.3 Mercantile Bank also issued a guarantee in favour of Redefine in the amount of R3 million payable whenever the Company has, in breach of its payment obligations in terms of a lease agreement for the premises occupied by the Company in Midrand, failed to pay any amount due to Redefine.

8.4.4 The facilities, made available to the Company and Beauty Factory, are jointly and severally guaranteed by each of them on behalf of the other in favour of Mercantile Bank.

8.4.5 The overdraft, asset-based finance, and MTL facilities granted to the Company and Beauty Factory are secured, inter alia, by a cession over all receivables and a special and general notarial bond over stock, plant, equipment and machinery of the Company and Beauty Factory.

8.4.6 Mercantile Bank perfected its security position over the debtors, stock, plant, equipment and machinery of the Company and Beauty Factory in terms of separate orders of court granted against the Company and Beauty Factory on 15 December 2017, by taking possession, prior to the Commencement Date, and retaining such possession during the Business Rescue, of all stock, debtors, plant, equipment and machinery of the two companies. This perfection was however not completed by the taking of possession of the stock and furniture situated at the various retail stores operated by Beauty Factory at the Commencement Date.

8.4.7 Mercantile Bank is accordingly a Secured Creditor of the Company and Beauty Factory over all stock, debtors, plant, equipment and machinery save and except for the stock and furniture at all the retail stores operated by Beauty Factory at the Commencement Date.

8.4.8 The amounts owing by the Company to Mercantile Bank as at Commencement Date were as follows:

8.4.8.1 overdraft – R32 491 192;

8.4.8.2 asset-based finance facility – cR2 million;

8.4.8.3 Redefine guarantee – R3 million; and
8.4.8.4 on the MTL – cR35 million.

8.4.9 In addition of the direct indebtedness of the Company to Mercantile Bank as set out in clause 5.1.7.8, the Company is also indebted, jointly and severally, with Beauty Factory for amounts owing by Beauty Factory to Mercantile Bank, on overdraft and MTL facilities advanced by Mercantile Bank to Beauty Factory. These amount are as follows:

8.4.9.1 overdraft – cR2,815,425;

8.4.9.2 on the MTL – cR11,176,401.

8.4.10 Accordingly, the Company and Beauty Factory were, at the Commencement Date, each, jointly and severally, indebted to Mercantile Bank in the total amount cR88 million, as a Secured Creditor.

8.4.11 On the perfection of the security position of Mercantile Bank, the overdraft facilities granted to the Company and Beauty Factory were frozen, with the result that the Company and Beauty Factory were unable to operate their businesses utilising the headroom available within the overdraft facility limits. That placed severe constraints on the capacity of the Company to continue with its business operations and, at the minimum, to meet its monthly operational expenses like salaries and wages, rental and other related expenses.

8.4.12 Consequently, the BRP engaged with the IDC during December 2017 and obtained PCF in the amount of R15 million. This amount was utilized, inter alia, to make payment of salaries and wages for the month of December 2017, to pay operational expenses and amounts required to complete purchase orders that the Company had committed to its Principals.

8.4.13 All amounts realised from the completion of the purchase orders were paid by the customers of the Company into the frozen overdraft facility at Mercantile Bank and were not available for the continued operations of the Company. In this manner, the overdraft facility of the Company was reduced. The funds required to continue operations, and settle critical expenses like on-going rental and utility charges, salaries and wages and purchase of raw materials were frozen and not available to the Company.

8.4.14 This situation left the Company in a very precarious position. All of the Company's cash flow was squeezed out of the system and no longer available for use in
continuing operations. As a result of the slow haemorrhaging cash flow position of
the Company, the BRP was forced to reach out to IDC for a further injection of PCF
and consider other alternatives for PCF to avoid a liquidation of the Company.

8.4.15 The application by the BRP for the advance of a second tranche of PCF, from the
IDC, was unsuccessful. This gave rise to discussions between Mercantile Bank, two
Principals, the BRP and his Advisors, as joint participants in a PCF arrangement.
These discussions were protracted and in the end gave rise to the following:

8.4.15.1 settlement of the overdraft indebtedness of the Company to Mercantile
Bank, and the release of Mercantile Bank;

8.4.15.2 release by Mercantile Bank of its perfected security position over all
stock and raw materials owned by the Company;

8.4.15.3 advance by Mercantile Bank of an unsecured overdraft facility, limited to
R3 million, as unsecured PCF;

8.4.15.4 the movement by the Company from a "fully-sourced" business model to
a "free-issue" business model with the result that Principals would source
and pay for raw and packaging materials required for the conversion of
their products, thereby alleviating the cash required by the Company to
itself source and pay for the raw and packaging materials;

8.4.15.5 the establishment of an escrow account with Norton Rose Fulbright to
facilitate payments to suppliers of invoices approved by a customer, the
Principal and the Company;

8.4.15.6 acquisition by Principals of all stock fully-paid and owned by the
Company, thereby injecting additional liquidity which went towards
settling the Company's original overdraft facility with Mercantile Bank and
providing the Company with cash to continue with its operations.

8.4.16 Through the initiatives put in place through the participation of key stakeholders, the
Company was able to slowly resume operations, receive purchase orders from
Principals and pay salaries of wages for February 2018. However, the cessation of
operations and slow resumption after a 3 to 4 week hiatus has given rise to a new
challenge, caused by that period of effective closure, resulting in a cash flow squeeze
which can only be mitigated over a period of time as operations get back to normal.
8.4.17 As at the Publication Date, the amounts owing to Mercantile Bank by:

8.4.17.1 the Company are as follows:

8.4.17.1.1 overdraft – Rnil;

8.4.17.1.2 asset-based finance facility - R2,086,575;

8.4.17.1.3 credit card - Rnil;

8.4.17.1.4 on the MTL – R35,180,663;

8.4.17.1.5 Redefine guarantee – Rnil;

8.4.17.2 Beauty Factory are as follows:

8.4.17.2.1 Overdraft – R828,788;

8.4.17.2.2 on the MTL – R11,291,913.

8.4.17.3 As at the Publication Date, the Company is also indebted to Mercantile Bank in the amount of R3,000,000 for an unsecured PCF facility made available by Mercantile Bank to the Company.

8.4.18 The company is also, as at the Publication Date, indebted to Redefine for a portion of the unpaid rental and utility charges from 1 January 2018 until the Substantial Implementation Date. All outstanding amounts falling during this period will rank as PCF in the Business Rescue.

8.4.19 The order of distribution of the proceeds of realisation of the assets of the Company, in the event of its liquidation, would be as follows:

Less: s89 Realisation

Less: Realisation available to Mercantile Bank

Balance available in Free Residue Account

Less: Liquidators fees and administration costs

Less: Employees Preferent Claims (section 98A of the Insolvency Act)

Less: SARS (Section 101 of the Insolvency Act)
Less:  IDC up to R20,000,000 plus interest in respect of the MCEP Loan (section 102 of the Insolvency Act)

Balance available for distribution to Concurrent Creditors on a pro-rata basis.

8.5 The composition and security of the Creditors, as at Publication Date, derived from the list attached as Annexure B, is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Secured</th>
<th>Preferent</th>
<th>Concurrent</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mercantile Bank:</td>
<td></td>
<td></td>
<td></td>
<td>49,480,000</td>
</tr>
<tr>
<td>MTL (Company)</td>
<td>35,200,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MTL (Beauty Factory)</td>
<td>11,300,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdraft (Company)</td>
<td>nil</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdraft (Beauty Factory)</td>
<td>700,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset based (Company)</td>
<td>2,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card (Company)</td>
<td>280,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Redefine guarantee (Company)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SARS</td>
<td>10,300,000</td>
<td></td>
<td></td>
<td>10,300,000</td>
</tr>
<tr>
<td>Trade Creditors</td>
<td></td>
<td></td>
<td>125,000,000</td>
<td>125,000,000</td>
</tr>
<tr>
<td>IDC MSEP Loan</td>
<td>20,000,000</td>
<td></td>
<td></td>
<td>20,000,000</td>
</tr>
<tr>
<td>IDC Loans</td>
<td>30,000,000</td>
<td>222,000,000</td>
<td></td>
<td>252,000,000</td>
</tr>
<tr>
<td>Shareholders of related party Loans</td>
<td>46,000,000</td>
<td></td>
<td></td>
<td>46,000,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>49,480,000</td>
<td>60,300,000</td>
<td>393,000,000</td>
<td>502,780,000</td>
</tr>
</tbody>
</table>
8.6 Any distribution will accordingly only accrue to Preferent Creditors if the assets of the Company realise an amount in excess of the full amount owing to Mercantile Bank, namely R85,800,000 plus an amount of R50,000,000 in partial discharge of the total amount owing to IDC. As of the Commencement Date this will require the assets to be sold in excess of cR150,000,000 before any distribution will accrue to Preference Creditors and after taking into account costs of administration in the insolvency proceedings of the Company as at the Publication Date.

9 CREDITORS VOTING INTEREST AND VOTING BY PROXY

9.1 In terms of the Companies Act, for the purpose of any vote by Creditors:

9.1.1 a Creditor has a voting interest equal to the value of the amount owed to that Creditor by a company on the date of the vote on the Business Rescue Plan;

9.1.2 a Creditor who would have a subordinated claim in liquidation has a voting interest, as independently appraised and valued at the request of the BRP, equal to the amount, if any, that the Creditor could reasonably expect to receive in a liquidation of the company; and

9.1.3 a Creditor who is not independent for purposes of the Business Rescue shall have a voting, as independently approved and valued at the request of the BRP, equal to the amount, if any, that the Creditor could reasonably expect to receive in a liquidation of a company.

9.2 A Creditor who has a Disputed Claim, contingent Claim, prospective Claim, damages or unliquidated Claim, will only be allowed to vote at the sole discretion of the BRP as stipulated in Annexure B.

9.3 Voting by proxy will be allowed as long as the form of proxy attached to the Notice of the Meeting is lodged with the BRP in terms of section 152. Creditors and Affected Persons are required to lodge their forms of proxy by no later than 13h00 on 13 April 2018.

9.4 All forms of proxy given on behalf of a company, a legal entity or a trust must be accompanied by a valid and authorised resolution supporting the appointment of the proxy.

9.5 Notwithstanding what has been stated in this clause, the BRP has a discretion to accept any proxy submitted.

9.6 The Creditors' voting interest, as at the Commencement Date, is set out in Annexure B.
10 PROBABLE DIVIDEND ON LIQUIDATION

10.1 The BRP engaged Phuthuma as an independent expert to calculate the potential dividend in a liquidation scenario as at Commencement Date.

10.2 The calculation in support of a liquidation dividend as at Commencement Date is based on an independent exercise undertaken by Phuthuma and Affected Persons are encouraged to properly consider the calculation presented by Phuthuma and satisfy themselves as to the accuracy thereof. If any Affected Person requires a full copy of the liquidation and distribution account, please contact Athuxolo Krwala of Genesis Corporate Solutions at athuxolo@genesiscorporatesolutions.co.za

10.3 Phuthuma relied on an independent valuation of the assets of the Company for the purpose of calculating the liquidation dividend as at Commencement Date, and the approximate realisation value is set out in the full liquidation calculation document prepared by Phuthuma.

10.4 The methodology used by Phuthuma in calculating the liquidation dividend is the methodology chosen by Phuthuma in their sole discretion and the BRP is not in a position to comment on the methodology.

10.5 The probable dividend which Concurrent Creditors would receive if the Company was to be liquidated as at Commencement Date is 0c (zero cents) in the Rand.

10.6 Based on the dividend calculation of Phuthuma as at Commencement Date, the BRP estimate that the probable dividend which Concurrent Creditors would receive if the Company was to be liquidated as at the Publication Date would still be 0c (zero cent) in the Rand.

10.7 The figures in clause 12.5 and 12.6 take into account the costs associated with liquidation, as calculated in terms of the Insolvency Act.

11 HOLDERS OF THE COMPANY’S ISSUED SECURITIES

Please refer to clause 2.1 of this Business Rescue Plan.

12 THE PRACTITIONERS’ REMUNERATION

12.1 The BRP’s remuneration is at a tariff for large sized company based on the Company’s public interest score at Commencement Date. The public interest score calculated in terms of Regulation 26(2) of the Companies Act as at Commencement Date was 1352.

12.2 A company is regarded as a large sized company if its public interest score is over 500.
12.3 To date, Mkhombo has charged out his time at the prescribed tariff rates set out in Regulation 128 of the Companies Act. In terms of section 143(2), the BRP hereby propose an agreement providing for further remuneration, additional to the prescribed tariff, resulting in an increase in the charge out rate of the BRP from R1 750.00 per hour to R2 250.00 per hour (excluding VAT), retrospectively, with effect from the date of his appointment. This fee is payable on the Adoption Date and is based on an approximation of the BRP’s standard hourly rates and the tariff rates. On approval of the Business Rescue Plan the Creditors and the Company agree to this increase and the payment of the difference in the prescribed tariff and the agreed increased hourly rate since the date of the BRP’s appointment.

13 STATEMENT ABOUT WHETHER THE BUSINESS RESCUE PLAN INCLUDES A PROPOSAL MADE INFORMALLY BY A CREDITOR

This Business Rescue Plan does not include any informal proposal made by a Creditor or Creditors of the Company.

[END OF SECTION]
PART B – PROPOSALS

14  OBJECTIVE AND PURPOSE OF BUSINESS RESCUE

14.1 The purpose of Business Rescue as outlined in chapter 6 of the Companies Act, read with section 7(k), is to provide for the efficient rescue and recovery of Financially Distressed companies, in a manner that balances the rights and interests of all relevant stakeholders.

14.2 The objective of Business Rescue, as set out in section 128(1)(b)(iii), is to develop and implement a rescue plan that:

14.2.1 rescues the Company by restructuring its affairs, business, property, debt and other liabilities, in a manner that maximises the likelihood of the Company continuing in existence on a solvent basis; or

14.2.2 if the aforementioned is not possible, results in a better return for the Company’s creditors or shareholders than would result from the immediate liquidation of the Company.

14.3 This Business Rescue Plan seeks to rescue the Company by implementing one of the proposals set out herein.

14.4 This Business Rescue Plan further seeks to provide Affected Persons with information, so that they may:

14.4.1 assess the likely outcome of the dividend yield calculation under Business Rescue, and

14.4.2 be assured of the likelihood of obtaining a better outcome under Business Rescue for all Affected Persons, when compared to a liquidation.

15  MORATORIUM

15.1 In terms of the Companies Act, the commencement of Business Rescue places a moratorium on legal proceedings against the Company. This means that Creditors, even though their rights may be secured, will not be able to proceed in any forum against the Company for non-payment of debts during Business Rescue.
15.2 The intention of a moratorium is to give the Company the best possible chance to implement the Business Rescue Plan, whether by way of Option A or Option B or Option C.

15.3 In the current circumstances, the moratorium in relation to the Company commenced on the Commencement Date and is expected to remain in place until the Substantial Implementation Date.

16 BUSINESS RESCUE OPTIONS

In an attempt to rescue the Company, the BRP considered the following three (3) Options:

16.1 Option A – Operational Turnaround Plan;

16.2 Option B – Sale Process; and

16.3 Option C - Structured Wind Down of the Company.

[GO TO NEXT PAGE]
17 OPTION A – OPERATIONAL TURNAROUND PLAN

17.1 Introduction

17.1.1 There are at least four things that a Financially Distressed Company must considered if it is to be successful, or achieve a turnaround of its financial position, over the long term. If a company does not have these four things it will never be a success. The four critical aspects of success are as follows:

17.1.1.1 Leadership: a company must have strong, visionary and visible leadership

17.1.1.2 Strategic Planning: a company must have a strategic plan which maps the journey of the company from one point to the next

17.1.1.3 Action Plan: this plan must break up the strategic plan in achievable sizes and building blocks, measuring each target as you go along

17.1.1.4 Management Team: a company must have a coherent, competent and motivated management team involved in the creation and achievement of its strategic plan, and action steps, and who must be responsible for the implementation thereof.

17.1.2 Once a board of a Financially Distressed entity has identified the risks associated with the decline of its profitability, it is the board's duty to take action. With the commencement of Business Rescue, that responsibility becomes that of the BRP in consultation with Management and the Board. The Proposed Operational Turnaround Plan provided that opportunity for the BRP to implement in a successful turnaround of the Company.

17.1.3 On the positive side the Company manufactures products needed not only by its Principals, but required by consumers. It is the only contract manufacturer of this size in South Africa, and in the whole of Africa. There is, with the right guidance, team and focus, a potential of growing the Company and establishing itself in the market.

17.1.4 The Proposed Operational Turnaround Plan embodies a 3-year turnaround plan, as follows:

17.1.4.1 Year 1: identifying the problems in the business (some of which will appear later in this section), appoint experts to devise a turnaround
strategy for the business and begin implementing the strategy developed for the turnaround of the business;

17.1.4.2 Year 2: build momentum within the business and customer satisfaction. This means getting Principals to focus on orders and increasing orders. At the same time, growth in the business must be pursued by increasing the number of Principals engaged by the Company;

17.1.4.3 Year 3: engage in a disposal of the Company.

17.1.5 At all times during this turnaround period the BRP must retain control of all decisions, and engage with the Directors and all turnaround experts engaged with the Directors and all turnaround experts appointed to devise the strategic turnaround plan. Between the BRP, Directors and turnaround experts, they will provide leadership in the form of change for the better of the business and all its stakeholders. They will provide new insights and energy for the business, focusing on those aspects that contribute to the demise of the Company.

17.1.6 Amongst the aspects highlighted in the Proposed Operational turnaround Plan outlined in this section of the Business Rescue Plan are the following:

17.1.6.1 Operational Leadership: The identification of the lack of skills and bolstering of operational leadership – place people focused on getting things done and controlling what they take responsibility for;

17.1.6.2 Availability of raw materials: with the transition to a “free issue” business model, the availability of raw materials should be planned to avoid standing-time or loss of production. This places an enormous pressure on planning and requires the correct skill level to implement;

17.1.6.3 Improvement of yields or output levels;

17.1.6.4 Improve liquidity position to create improved yields – for instance, the business cannot operate profitably while it scraps around for cash to repair a broken boiler or addresses an unforeseen breakdown in equipment;

17.1.6.5 Works according to a plan and avoid standing-time or overtime that erodes profitability to the detriment of the Company.
The financial demise of the Company is not attributable to the declining market share. It is due to the declining margins caused by liquidity issues and poor operational leadership and discipline from the top down. These symptoms are dealt with in more detail in this section.

All of the symptoms are capable of being addressed. They require rapid action and implementation. With funding available, many of the symptoms can be addressed so that the Company can move away from its traditional way of doing business. It calls for strong leadership.

Armed with an appropriate mandate, and funding required to implement the targeted results, the BRP and his advisors can embark on a turnaround strategy without losing its current volumes from the Principals. The game changer for the Company is to move to “free issue” and provide the conversion into an end product for a fee. In essence, the Company will move to a business model as a manufacturer (a) receiving raw materials sourced and paid for by Principals; (b) converting the raw materials into another form or product directed by the Principals and (c) delivering the converted material to the Principals for its use, all or an agreed fee.

Problem Statement

The Company has been operating for a number of years as a contract manufacturer, catering for a variety of principals, ranging from small independent companies to large multi-nationals.

The Company has operated with varied success over the years, lately it has been dogged by diminished volumes, cash-flow constraints and a number of operational challenges.

Forays into private label manufacture for various retailers has led to significant inventory obsolescence and redundancy due to poor forecasting on the part of the retailers and minimum order quantities for bespoke items from suppliers.

Some years ago it was decided to introduce a range of owned brands, housed in a separate company, namely Beauty Factory. Significant resources were devoted to building this business which has proved to be a distraction and significant cash drain as well as an inventory trap.

Various methods to introduce liquidity into the Company over the years have resulted in the building being sold and leased back at above market-rates. A significant cash
injection from the IDC, which saw the IDC take a shareholding in the Company, saw no immediate benefit accruing to the Company. The IDC loan went towards the payment of outstanding creditors, with little benefit seen in the improvement of the plant. In other words, the liquidity injected through various initiatives saw the debt burden of the Company being addressed. Operational issues and inefficiencies saw no benefit or improvements.

17.2.6 There are a number of structural imbalances within the Company. These appear in the organizational and leadership structures and in the manning of both the production operations and the engineering support function. By and large, operational leadership lacks experienced guidance. All these issues are capable of being resolved by addressing the lack of skills and experience within the business.

17.2.7 In the engineering structure, the leadership is non-existent primarily stemming from the attitude of the Engineer, who together with the mechanical foreman, has since resigned. There is also evidence in the leadership of wilful disobedience, particularly outside of normal management working hours. A power surge recently resulted in the breakdown of a reverse osmosis plant – the kidney of the business – with nobody taking responsibility for it to be fixed. This has catastrophic consequences on yield and output levels. This happens when either structured leadership is not around or fails to take responsibility.

17.2.8 The shift structure is a particular problem, resulting in essentially two “cold starts” every day and an opportunity of each shift to blame the other for the state of the equipment. Machinery works best if running constantly. Stop-starts are the prime enemy of productivity! There are currently 2 shifts, with a day shift starting at 7h30 to 16h30 and a night shift starting at 18h30 to 05h00.

17.2.9 Operators are undervalued by being called “Hopper Fillers” as they clearly do much more than simply replenishing hoppers. Setters likewise are undervalued because they are the first line of maintenance and are often much more experienced than the so-called technicians, who, whilst they may be formally qualified, lack either the experience nor the will to “dirty their hands” in the menial task of getting machines running by making necessary adjustments.

17.2.10 The leadership structure in both production and engineering needs to be revisited. Recognition should be given to the critical roles that the setters play in the business.
17.2.11 The plant is well laid out on the whole and the flow is adequate. The repair of the central conveyor collating system will result in considerable savings in manpower, downtime due to lack of pallets, reduction of forklift traffic (and the associated costs) and a generally better flow in the factory. The repair to this conveyor has been carried out at no outside cost and the operational benefits are already becoming evident.

17.2.12 As an observation, there are two major areas of concern, namely, output against standard and yields and rejects. The primary concern is output. In pretty much every department, output is way below standard. This is a result of a combination of factors:

17.2.12.1 lack of supervision and leadership;

17.2.12.2 in-experienced operators;

17.2.12.3 work being delayed and protracted to fill the time available (with no regard to the consequences of those actions);

17.2.12.4 poor maintenance, including poor cleanliness of machines;

17.2.12.5 inconsistent operations;

17.2.12.6 inadequate or intermittent or non-timeous availability of materials on line;

17.2.12.7 too many people carrying out operations which should be mechanised, or to cover faulty equipment, or to cover transitions from one machine station to another;

17.2.12.8 malicious compliance (this happens when one blindly obeys an order without any regard for its consequences); and

17.2.12.9 lack of appreciation for the consequences of actions.

17.2.13 These are issues that come down to one critical feature of any business: the removal of management paralysis and implementation of change with roles identified, skills base acquired at all levels and consequences introduced for failures at any level impacting on yields or output. Generally the diagnostic ability throughout the engineering and operating levels of the business is poor. This results in firstly a symptomatic approach to diagnosis, inadequate initial repair and thereafter a cascade approach of adjustments to try to rectify the problem, which is often not fully resolved. Again, this is an issue that can be addressed by introducing consequences on any
failure by personnel to step up the game. It also requires that sufficient resources are available to attend to any breakdown or maintenance required.

17.2.14 By and large, the equipment is of good quality and design. The machines are however, generally in a poor state of repair. This poor state can probably be attributed to a number of factors:

17.2.14.1 lack of resources;

17.2.14.2 inadequate experience on the part of both operators and maintenance staff; and

17.2.14.3 pressure of production and output demand.

17.2.15 The equipment has not been adequately maintained over the past 4 years. The approach has been to address problems on an ad hoc basis and fix problems or breakdowns as and when they occur. Ultimately this has resulted in the equipment not being reliable or available for production for long periods of time. The practice of routine preventative maintenance, other than simple cleaning and lubrication, creates more problems than it solves. On the other hand, a systematic approach to condition monitoring and thereafter preventative maintenance is a very good approach. This does not necessarily need sophisticated equipment or systems. Simple observational skills on the part of operators, setters and maintenance personnel (an obviously management) like noting strange noises, squeaks, leaks, abnormal hot spots etc. and investigating these symptoms can often prevent serious downtime. Again, the need is to identify the root-cause of the symptom and address this, rather than doing a “patch job”.

17.2.16 There also seems to be the common habit of “making a plan” to get the machine going again, with little thought about the possible damage to the machine due to an inadequate repair, safety issues and the probability that a second intervention will probably be necessary to address the problem finally.

17.2.17 The “normal” pattern of material availability in a contract manufacturing environment with a large proportion of consignment stock from the customers and owned stock from own suppliers results in a typical production pattern of a lean first two weeks of the month, with heavy demand in the remaining weeks, often requiring overtime. Overtime, in turn, comes at a huge cost, ending profitability on a particular job.
17.2.18 The spreading of this material availability is a critical issue and requires attention at the highest level. It results in major productivity issues and cannot be over-emphasised. There is recognition that payment of suppliers is at issue, both by the Company and by the customers, but again the implications for the viability of the Company cannot be over-stressed.

17.2.19 The Company operated on two models until recently, namely free-issue and fully-sourced model. Free-issue is where the client supplies all the materials to the Company and the Company charges the client a tolling or conversion fee whereas a fully-sourced model is where the Company sources all the materials for production. The Company always operated on a fully-sourced model. A few years ago, and due to working capital constraints, the Company was forced to move some of its biggest clients to the free-issue model.

17.2.20 One of the major issues around one of the Company’s clients and a contributory factor towards a loss of margins is, for example the delay in the supply of raw material to produce and deliver on orders. Instead of supplying the raw material before the planned production, the material is supplied during the month of the planned production and as a result the Company is unable to meet its production target and forced to work overtime and ultimately end up incurring additional/unplanned labour costs. This impacts on the Company’s profit margins. This will be addressed over time by the introduction of better systems and disciplines.

17.2.21 The business of the Company has not grown beyond the established four or five customers. It has not tapped into new markets or taken advantage of severe production under-capacity within other multi-nationals operating in South Africa. The Company has, by its own account, capacity to produce significantly more units per day than it currently does. It has also not tapped beyond one or two customers for the production of aerosol units. The potential to increase production through a wider customer base has not been tapped and additional volume will greatly improve the margin and contribution. The Plant was designed for 5 lines, there are only currently installed.

17.2.22 Opportunities for increased growth and productivity for the Company lie in tapping on “underwater” multinationals. It is important that the volumes of these multinationals are secured for the Company, as many are themselves facing closure of their facilities. Another potential for the Company is multinationals that import products into South Africa.
17.2.23 What is often not understood about contract manufacturing is that the theoretical cost-base is essentially the same as that of any multi-national manufacturing company, with the same infrastructure, the same quality, productivity, similar cost of labour and safety standards, but whilst the manufacturing operations of a multi-national (or local) company are a cost centre, a contract manufacturer has an obvious profit motive.

17.2.24 The most visible cost-driver was high labour costs due to the use of labour brokers to source factory staff including general cleaning staff. Since March 2017 to December 2017, the total labour costs by labour brokers amounted to +R16 million.

17.2.25 Cash constraints have resulted in various “coping behaviours” throughout the organization. There is great concern in the workplace regarding viability of the operation. In general, the operations require stronger leadership at the coalface, both in production and in engineering.

17.2.26 It is against this reality that the Proposed Operational Turnaround Plan is now considered.

17.3 Proposed Operational Turnaround Plan:

17.3.1 Organisational Structure

17.3.1.1 The Company was structured to provide a full service in respect of material procurement and management in a “full-service” model. This model envisages a complete profile of services from the procurement of raw material to the delivery of the completely executed order.

17.3.1.2 As a result of the fundamental change in the business model from a “full service” operation to a “free issue” set-up, there is the opportunity to restructure the personnel of the Company, thereby achieving more for less.

17.3.1.3 The strategic market focus of the business is to service multi-nationals who have no or limited manufacturing capability in South Africa and for this reason the current product/packaging development operation is redundant. Likewise the research and development structure can also be disbanded.

17.3.1.4 If necessary, these activities can be out-sourced and managed by the business development consultant that is envisaged to carry out marketing activities.
17.3.1.5 As the Company will for the foreseeable future operate on a cash on delivery or cash with order basis, there is no need for a large creditors operation.

17.3.1.6 On the other hand, costing is an imperative, as is the maintenance operation and for this reason the Company must employ an industrial engineer experienced in activity-based costing and modelling to supplement the management accounting function.

17.3.1.7 A competent and experienced maintenance engineer/manager must be employed to fill the existing vacancy. This is a key position within the Company and must be filled by a qualified and experienced individual to improve operational efficiencies.

17.3.1.8 The Current Structure is as follows:
17.3.1.9 The intention is to implement deep cuts in the leadership structures, with a view to strengthening the management and adding as required to the structure as the business recovers and expands again.

17.3.1.10 In carrying out the executive restructuring, there will be redundancies and it is noted that a number of the potential redundancies have long service and significant remuneration. Consideration must be given to accommodating affected personnel at lower levels in the organisation. The potentially disruptive effect on the structure going forward will also have to be weighed against the cost implications of the redundancies.

17.3.1.11 The proposed structure is “flat” with a MD actively involved in the day-to-day running of operations. The MD will be expected to mentor and coach those leaders requiring such input and succession will be a key part of his or her planning. As the business recovers and expands the MD will assume a more strategic role.

17.3.1.12 There are two possible structures. One structure closely mirrors the existing structure with limited redundancies and the other a more flatter structure, a more cost effective and operationally more focussed and driven towards the objectives and priorities of the business (it is estimated that this structure could result in a cost saving of cR400,000 per month):

![Diagram of the proposed structure]

- Managing Director
- Executive Assistant
- Operations Executive
- Financial Director
- Marketing Executive (Consultant)
- Quality Assurance Executive
- Manufacturing
- Financial Accounting
- Supply Chain
- Management Accounting
- Client Services
- Business Support (IT, Risk Management, Safety, etc.)
17.3.1.13 This structure is designed to maximise operational effectiveness with direct control of the day-to-day operations by the CEO/MD. It also takes account of the reduction in management and other infrastructure required in moving to the free-issue business model.

17.3.1.14 To an extent, one has to cater for existing skills and competency in the business in developing a structure going forward, and this structure can be largely populated with existing management.

17.3.1.15 In the new structure it is envisaged that only two executive directors would be appointed, with three non-executives, one of whom would be the chairman.

17.3.1.16 Client Services will be trimmed back to ensure day-to-day interaction with the Principals. In addition to interaction with Principals, these positions will also act as product expeditors, liaising with suppliers to ensure that materials are available on site in accordance with the agreed delivery schedule.

17.3.1.17 New business development must be outsourced and primarily focussed in Dubai where the major multinationals have their regional offices. This activity must be carried out by an experienced consultant with the requisite relationships and credibility and will consist of a limited retainer and a significant value-related success bonus structure. This consultant has been identified and has previously held discussions and consultations with the Company.

17.3.1.18 This is a significantly trimmed organisation and will result in considerable cost savings.

17.3.1.19 In addressing the inefficiencies in the factory and associated support functions, the factory will run on a four-day or seven-day basis, utilising a 12 hour shift system. This will allow optimum utilisation of plant, including providing time for planned maintenance and staging of materials.

17.3.1.20 In the operations area of the business, there are redundant layers of management and leadership and this must addressed by a de-layering exercise.

17.3.1.21 The current production structure is as follows:
17.3.1.22 The proposed structure in terms of the Operational Turnaround Plan will be as follows:

17.3.1.23 Although this will increase the burden on management significantly, particularly in the area of documentation, funds will be allocated to moving away from a paper-based documentation system to an electronic system. This will not only reduce the burden, but provide live production data and access to documentation by Principals as it is intended that this will ultimately be a cloud-based system.

17.3.1.24 Staff affected by these changes will be offered positions at a lower level at reduced pay, alternatively made redundant.
17.3.1.25 Organisation structures for all departments have been developed, but not shown here as the relative changes are not significant in terms of cost reduction.

17.3.1.26 There will be an increase in cost in the engineering support area to take account of the relative age of the equipment, the 24/7 nature of the business and the need to continuously improve plant availability to ensure maximum utilisation and capacity when required.

17.3.1.27 This increase in headcount in engineering necessitates an increase from the current two shift cover to three shifts and ultimately four shifts. Each shift will have a millwright, electrician and two maintenance fitters. The increased monthly cost to company should be in the region of cR150 000.

17.4 Operational Changes

17.4.1 There are three prime focus areas:

17.4.1.1 Product Labour Cost;

17.4.1.2 Output against plan; and

17.4.1.3 Yields.

17.4.2 Product Labour Cost is measured as cents per unit. Typically this runs at an aggregate of R 0,33 per unit. This obviously depends on the product mix and is heavily impacted by disruptions to through-put.

17.4.3 It should be borne in mind that the plant currently produces approximately 6 million units per month, so every cent saved by these interventions delivers an improvement in margin of R60 000.

17.4.4 Any disruption will have its cause in the following:

17.4.4.1 Material shortages;

17.4.4.2 Staff shortages (absenteeism); and

17.4.4.3 Plant breakdown.
17.5 Planning

17.5.1 Proper planning and liaison with principals and material suppliers with strict planning disciplines can reduce the material shortages dramatically. At present, the accuracy of available stock is excellent. This means what is shown on the system is >98% accurate.

17.5.2 What has been a major problem is the shortage of one or more materials needed to complete a batch or a particular order. This also results in significant inventory holdings over time which cannot be utilised, often for the lack of a relatively inexpensive material (e.g. shrink-wrap).

17.5.3 It is proposed that the strict planning discipline be agreed with the principals and will be set up as follows:

17.5.3.1 A week’s production must be confirmed on the preceding Wednesday, the batch will be rescheduled for another week.

17.5.3.2 Labour must be scheduled to manufacture/pack these batches for the following week.

17.5.3.3 If any material is not available on the Wednesday, the batch will be rescheduled for the subsequent week.

17.5.3.4 Labour will be scheduled to work either 4 shifts Monday to Thursday, with Friday to Sunday off or on a continuous 4-shift system covering 7 days on the basis of 4 days on and 4 days off. This shift pattern will be governed by demand and machine/line capacity.

17.5.3.5 Staff shortages will be managed by setting up a system to train stand-by operators who can step in to operate plant and equipment in the event of absenteeism. These people will be normally deployed on the line in another lower position, but will be paid for the hours that they work at a higher level at the pay rate for that higher level. The Company will also create a back-up labour pool whose personnel will normally be deployed in support jobs (cleaning, gardening, building maintenance etc.) and can then be used to fill in vacancies. This will have the added benefits of reducing the necessity of using contractors for these activities.
17.6 Maintenance and Projects

17.6.1 A programme for the rehabilitation of plant and equipment has been devised and currently surplus plant and machinery is being routinely rehabilitated and swapped out with plant and machinery in use. This will improve efficiencies in production and the availability of plant and equipment on an uninterrupted basis significantly.

17.6.2 In addition, the setter complement has already been strengthened significantly and focus must be empowering these people by both informal and formal training so that they form the “next generation” of technicians. They must also be provided with tools to carry out their duties.

17.6.3 A core of maintenance technicians will also be supplemented to provide the necessary back-up to production and the setters.

17.6.4 Initially, each morning and afternoon shift will be covered by a team consisting of a millwright, three mechanical maintenance fitters and an electrician. These will initially cover the period 06:00 to 22:30 on a 2-shift basis, with the morning shift personnel covering the period 22:30 to 06:00 on a call-out basis and the afternoon shift personnel covering the weekends on a call-out basis.

17.6.5 As the business recovers, further maintenance personnel will be recruited to form a third shift for 24 hour cover. Thereafter a fourth shift will be introduced to provide 24/7 cover as stated above.

17.6.6 There are a number of small projects planned to significantly improve flow, efficiency and reduce cost per unit. These projects range from refurbishment of the centralised finished goods conveyor system, to the re-orientation of lines, to the refurbishment of plant and equipment, to the alignment of lines to eliminate manual conveying to the introduction of mechanized box sealing.

17.6.7 In re-aligning the layout of the various departments, this allows the Company to take advantage of the centralised conveyor system. It is a relatively simple project, with only internal labour costs.

17.6.8 The Company will also embark upon an empowerment/training programme to equip the current setters to perform more complex repairs and maintenance and thus provide them with the opportunity to become fully-fledged technicians.
17.6.9 The opportunity to provide in-service training for apprentices/learners should also be explored.

17.6.10 Some of the changes in layout envisaged are shown below.

17.6.11 Current Layout of the Household Department:

17.6.12 Proposed Layout of the Household Department:
17.6.13 This simple change, combined with the rehabilitation of the central conveyor system, will not only improve product flow, but also reduce headcount by two people on each line per shift. (20 people over 4 shifts) The average general worker earns R 200/day. (20 X 200 X 4 X 4,333 X 12 = R +/- R 850 000 per annum) (Can we provide an estimate of the cost saving?).

17.6.14 With the alignment of the lines and the installation of proper transitions between each machine centre, this will eliminate a further two people per line, excluding toothpaste. (16 people over 4 shifts) (16 X 200 X 4 X 4,333 X 12 = R +/- R 670 000 per annum)

17.6.15 There is also significant benefit in the reduced handling improving throughput and thus reducing the cost of production per unit.

17.6.16 These people will be redeployed to fill the vacancies to make up the additional shifts. There will also be a significant saving in time by installing mechanised case sealing and further saving in sealing tape.

17.6.17 The layout in the ethnic hair care department (being the department that manufactures products focussed on ethnic hair care treatment) will improve flow and reduce congestion.

17.6.18 There will also be labour cost savings in the sealing operation for the same reasons as above. However, as these lines are not running at full capacity, the estimated headcount saving here will be of the order of 5 jobs per shift, giving a saving of 10 jobs over 2 shifts (10 X 200 X 2 X 4,333 X 12 = R +/- R 200 000 per annum).

[GO TO NEXT PAGE]
17.6.19 Current layout of the Hot-fill Department (this is the department which produces products which are poured into packaging at high temperatures and cooled before being moved into finished goods):

![Current layout of the Hot-fill Department](image1)

17.6.20 Proposed layout of the Hot-fill Department:

![Proposed layout of the Hot-fill Department](image2)

17.6.21 The same re-alignment must be carried out in the hand packing (Woolworths) department, with savings of the order of 10 people over 2 shifts. On a 5 day week, this results in a saving of R 200 X 10 X 5 X 4,333 X 12 = R 520 000 per annum.
17.6.22 It is estimated that all of these interventions will reduce labour costs in the order of 15%, depending on product through-put mix. This equates to some 50 positions that will be made redundant. The reduction in 50 positions will result in an annual saving of 
\[
50 \times R\ 200 \times 5 \times 4.333 \times 12 = R\ 2\ 600\ 000
\]
per annum. The people occupying these jobs are largely contract workers and where possible they will be accommodated on other shifts where we are short of labour. As an indication, this would equate to a direct saving of the order of R 210k per month at 2017 average rates of pay.

17.7 Financial Changes

17.7.1 The most significant of these changes is the move by the Company from a “fully-sourced” to a “free-issue” business model.

17.7.2 From a cash-flow perspective, it should be remembered that in the current situation, most consumables and services will be procured on a cash basis, and as and when required to convert purchase orders placed by Principals. This lessens the working capital needs of the business.

17.7.3 The current invoice discounting system does however allow payment within 7 days of invoice. The Company believes that there may be other options which will improve cash-flow (for instance, Nedbank have a facility with gives 80% of the invoice value immediately and 20% when the debtor settles the invoice. The costs of this are company-specific) and these should be explored further.

17.7.4 The obvious effect of this new model is to relieve the major cash drain on the business through the necessity of having to procure (often large quantities) materials in advance. These often also have long lead times if they are imported and often have to be procured on letters of credit. This has a significant impact on cash-flow with cash-to-cash cycles > 90 days.

17.7.5 There is an impact on the balance sheet in that inventories are reduced, but this is offset by cash. The impact on the business of the organizational, operational and financial changes in fixing it is set out in the income statements attached as Annexures D1, D2 and D3, which are prepared, respectively, projecting outcomes on an optimistic, realistic and pessimistic basis.

17.7.6 The financial viability of the Company, apart from the financial efficiency improvements, outlined earlier, is dependent on the quick, efficient and seamless turnaround of sales orders into finished goods and then cash.
17.8 The Medium-Term Picture – 2018 to 2023

17.8.1 The keys to building a sustainably profitable contract manufacturing operation are built on four key drivers:

17.8.1.1 Volume
17.8.1.2 Efficiency
17.8.1.3 consistency (quality)
17.8.1.4 adaptability

17.8.2 Essentially, the business will be driven to be a cost-efficient alternative to in-house production by prospective and existing Principals.

17.9 The Market for the Company’s Services

17.9.1 To build volume in the business it is intended to focus on the previously identified large multi-national and local companies and to focus on three primary product categories:

17.9.1.1 personal care products;
17.9.1.2 home care products; and
17.9.1.3 personal care aerosols.

17.9.2 The attraction of these categories is that they fall into the broad definition of products that are “needed” rather than “wanted”, with the possible exception of aerosols. As a consequence, even in the toughest economic circumstances, demand is reasonably resilient.

17.9.3 For many multinationals, there have been two global trends: globalization of supply chains and out-sourcing.

17.9.4 In the local context, multinationals face a dilemma in local investment for a number of well-known reasons:

17.9.4.1 perceived political and economic instability;
17.9.4.2 local equity requirements;
17.9.4.3 labour legislation; and

17.9.4.4 lack of knowledge of local social norms.

17.9.5 For this reason, multinationals are reluctant to invest in local manufacturing. However they see Africa as the last remaining “virgin” market, with South Africa being the gateway to this market because of the sophisticated infrastructure that exists.

17.9.6 For obvious reasons, multinationals are also high profile “targets” for industrial action and given that the South African market typically represents a small fraction of their total market, the perception is that the risk of local in-sourced operations is not palatable.

17.9.7 Essentially, out-sourced manufacturing and distribution allows these companies to prosecute the market with manageable risk.

17.9.8 Only 1 large multinational has invested significantly in facilities in SA over the past 10 years and that is Unilever. Other multinationals have facilities but not necessarily profitable ones.

17.9.9 A real possibility of total facility outsource exists with Colgate, L’Oréal, Reckitt Benckiser and Johnson &Johnson and Revlon. Added to this, Beiersdorf and Proctor & Gamble import all finished goods into SA and with the right incentives, may well be opportunities for local production and thus for the Company. There are also a number of Indian multinationals who are expanding their foothold in the African market and they too are looking for capacity.

17.9.10 The multinationals are always changing from in-house models to outsource models, and back again, which do lessen the risk of out-sourcing operations such as the Company.

17.9.11 However there is usually significant notice given for these changes which allows for contingency planning and as the drive for new business is prioritised, this volume fluctuation can be catered for by introduction of alternative volume, or by tailoring the operating model to the reduced volumes.

17.9.12 This is obviously contingent on managing the fixed overhead very tightly to ensure that costs are covered by the contracted medium-term base load.
17.9.13 In recent times, the outsourcing model is the preferred one, not only in our industry but across industries, as successful brand owner’s focus upon managing their brands, while outsourcing the hard work of manufacturing products.

17.9.14 Unilever (traditionally strongest on in-house) have acknowledged that in-house was a mistake and that outsourcing is key to their strategy going forward.

17.9.15 The Company no longer sees traditional competitors as the real competition. The real competition is brand owners’ owned major factories in SA and imported items.

17.9.16 The Company strategy is therefor on one hand, to look to entice multinationals with own plants that are not recovering adequately, as volumes are low, to outsource and on the other hand to work with Government to encourage those who import to localize production.

17.9.17 The barriers to entry in manufacturing are becoming more onerous all the time with the focus on product safety, environmental protection, labour management and other controls becoming ever-more burdensome.

17.9.18 The Company has a significant advantage in terms of infrastructure that meets international current good manufacturing practice standards. These standards are the minimum entry requirement to participate in the identified market segment.

17.9.19 Any other entrant competing for share of the identified market segment would have to build world-class facilities, staff them adequately with competent management, develop the necessary operating procedures and processes and find sufficient volume to be immediately sustainable.

17.9.20 This is unlikely, but is an obvious threat.

17.10 Volume

17.10.1 The market for contract manufacturing services is broadly broken down as follows:

17.10.1.1 Large multinational and national companies who are looking for contingency manufacturing capacity and capability;

17.10.1.2 Large multinational and national companies who are looking for manufacturing capacity and capability to launch new products without disrupting their manufacturing operations and without significant investment;
17.10.1.3 Medium-sized multinational and national companies who are looking for contingency manufacturing capacity and capability;

17.10.1.4 Medium-sized multinational and national companies who are looking for manufacturing capacity and capability to launch new products without disrupting their manufacturing operations and without significant investment;

17.10.1.5 Smaller companies and start-ups who are looking for professionally managed facilities to produce product for the market where standards of entry with respect to quality are high.

17.10.2 What is attractive about the Company’s offering is the range of capabilities and capacities on offer. These range from small volume, hand-packed products, to high-speed largely mechanised lines.

17.10.3 From batch sizes as small as 100kg to 6000kg can also be accommodated in manufacturing. Both hot and cold processed products can be handled. Pastes, creams, emulsions, suspensions and many other processing formats are possible.

17.11 Marketing

17.11.1 Broadly, the marketing effort will be divided into two:

17.11.1.1 Managing existing relations and volumes through the client services organization;

17.11.1.2 Attracting new business through the use of consultants/business development specialists who would be rewarded on an agreed basis, but with a predominant results orientation.

17.11.2 As most of the multi nationals have regional headquarters in Dubai, it will be necessary to travel reasonably consistently to this destination. It may also be necessary to travel to Europe and the United States to meet with Principals.

17.11.3 This will be essential for initial contact, but thereafter as far as possible video conferencing would be used to reduce costs.

17.11.4 As the multinationals are likely to have little or no in-bound supply chain capability, it is probable that the Company will have to offer this capability. For this reason, a core
of procurement capability will be maintained and expanded upon as and when required.

17.11.5 It is also possible that, whilst the Company will remain a toll-manufacturer, some sort of local financing structure may be necessary for multi-nationals. For this reason, a relationship will be built with financial institutions to facilitate the financing of inventories for multinationals.

17.11.6 The goal will be to double the size of the Company in 5 years. The objective will be to land at least one multinational client each year in order to achieve this goal.

17.11.7 To validate this objective, the current should be borne in mind:

17.11.8 The Company currently produces on aggregate 6m unit per month;

17.11.9 The fixed and variable costs in producing these units will be approximately R 11,5m per month;

17.11.10 The estimated revenue from this volume is between R 12m and R 14m, mix-dependent;

17.11.11 One already identified multinational will bring an additional estimated R 5m revenue, with variable costs of R 1,5m.

17.11.12 As can be seen, the addition of volume is significantly revenue-enhancing. Additional Principals are obviously also risk-mitigating.

17.12 Financial Model

17.12.1 The operational turnaround plan is dependent on a few key elements:

17.12.1.1 an injection of PCF, over a period of two years, of between R20,000,000 and R25,000,000 to be used for capex and working capital requirements;

17.12.1.2 a consistent level of sales orders as currently experienced with volume growth of 2% per annum; and

17.12.1.3 implementation of fundamental changes in the business with the objective of reducing operational expenditure and improving yields levels.
17.12.2 It is not expected that any kind of distribution will accrue to Creditors in the first five years of the operational turnaround plan. It is projected that, over time, the Company will, by June 2021, accumulate cash reserves of R20,000,000 available for partial distribution to Creditors in respect of their Claims. Subject to there being no immediate operational requirement for accumulated cash reserves, a first distribution in June 2021, of approximately 15 cents in the Rand, will accrue. A fundamental game changer for Creditors is if the Company, going forward, with the implementation of the operational turnaround plan, succeeds in securing a new Principal with increased volumes and yields. For instance, if the volumes were to increase by 30%, the resultant yield will contribute an additional R40,000,000 of cash reserves with an increased distribution in June 2021 of approximately 45 cents in the Rand.

17.12.3 The success of an operational turnaround is dependent on maximising volumes and, consequently, the yields, within a reduced and restructured headcount, and operational improvements to reduce, for instance, the cost per unit of production, downtime and improved throughput and the plant and operational infrastructure of the Company, are by all accounts, of high quality capable, with minimal capex, of achieving improved yields. That having been said, the achievement of a successful operational turnaround plan, for the benefit of creditors, is subject to the elements outlined in clause 17.13.1.

17.12.4 The following documents are attached to substantiate the forward looking cash flow position, and balance sheet of the Company through the Proposed Operational Turnaround Plan:

17.12.4.1 **Annexure D1** – income statement projected for a projected period of five years;

17.12.4.2 **Annexure D2** – cash flow projected for a period of five years; and

17.12.4.3 **Annexure D3** – balance sheet projected for a period of five years.

17.12.5 The Proposed Operational Turnaround Plan cannot succeed without a significant new capital injection either through a sale of a large portion of the equity in the Company or the acquisition by a new shareholder of a controlling interest in the Company. This is a key and critical element for the success of the proposed operational turnaround plan.
17.12.6 The following key assumptions are included in the projected cash flow, income statement and balance sheet attached as Annexures D1 to D3:

17.12.6.1 the Company continues to operate under Business Rescue for the duration of the five year forecast;

17.12.6.2 all amounts owing to Creditors remain subject to the moratorium triggered by the Business Rescue or the duration of the proposed operational turnaround plan, with the exception of an arrangement to be reached in respect of amounts agreed and payable to Johannesburg Water.

17.12.6.3 all amounts owing to Johannesburg Water and the City of Johannesburg are agreed and settled over a period of time, with the amounts discharged by 30 June 2019;

17.12.6.4 Provision is made for 2% growth in volume per annum and a 5% grown in pricing, with existing cost structures being maintained.

17.12.6.5 Provision is made for continued business rescue practitioner and legal costs of R400,000 per month from 1 July 2018 to June 2020, thereafter reducing to an amount of R300,000 per month;

17.12.6.6 the assumptions include the injection of CAPEX of a total amount of R22,400,000 over a period from 2019 to 2021;

17.12.6.7 a medium term loan facility is put in place or the working capital needs and requirements of the Company and the funding of the CAPEX requirements referred to above totalling R40,000,000.

17.12.7 With the injection of new funding into the Company, the net cash available at the end of each calendar year over the next five to six years through the implementation of the proposed operational turnaround plan will be as follows:

- 2019 – R1,400,000
- 2020 – R5,300,000
- 2021 – R10,700,000
- 2022 – R20,800,000
On the best case scenario, and retaining the current volume of production with a minimal 2% growth in volume and 5% growth in price, the earliest prospect of a Distribution is around June 2021. This position will improve and be beneficial should the Company attract a new Principal with additional volume of approximately 20 million units at R2,50 as the cost price per manufactured unit. Such an increase will deliver volume growth of approximately 30% and a profit boost of anything between R30,000,000 and R40,000,000 per year. On the free issue business model, this profit boost will result in an equivalent annual cash boost for the Company.

These assumptions do not take into account any hurdles or bumps experienced during the Proposed Operational Turnaround Plan, for instance, a breakdown in the plant and equipment and any other unforeseen events during the period of the proposed operational turnaround plan. Any hurdle or bump experienced will have an impact on the net cash of the Company.

17.13 **Capital Structure**

17.13.1 It is proposed that board of the Company be reduced, but that a level of non-executive directors be maintained to ensure the implementation of the Proposed Operational Turnaround Plan.

17.13.2 Since neither the directors nor management are trained or equipped to deal with a financially distressed business or implement a turnaround plan, it is proposed that the day-to-day management of the business be managed through a Restructuring Committee comprising of the following:

17.13.2.1 the BRP and its advisors;

17.13.2.2 the Restructuring Expert appointed by the BRP and the directors;

17.13.2.3 Managing Director;

17.13.2.4 Operations Executive;

17.13.2.5 Financial Director; and

17.13.2.6 Quality Assurance Executive.
17.13.3 This will enable the Restructuring Committee to devise and, once approved by the Directors, implement the Turnaround Strategy of the business. The Directors should maintain ultimate control at all times and not allow the Restructuring Committee to act as if it is the board of the Company.

17.14 Working Capital Structure

17.14.1 It is an imperative that the Company remains a toll manufacturer. The reasoning for this is simple: the Company’s anticipated margins are not sufficient to withstand price shocks in materials costs, and holding costs and strain on its cash flow by holding onto stock for long periods of time.

17.14.2 What has happened in the past is that materials suppliers in South Africa are largely oligopolistic and have simply enforced price increases on local manufacturers. It is not possible to pass these price increases fully on to Principals as they, in turn, are at the mercy of the oligopolistic retail channel, which uses the consumer price index as a (unrealistic) benchmark for price movement.

17.14.3 It is proposed that costing will be on an open-book basis with Principals and for this reason each activity will have to be defensible.

17.14.4 To ensure a continued cash-positive situation, until sufficient creditability is rebuilt with suppliers, the business will continue to rely on invoice discounting through the mechanisms currently in place.
17.14.5 The following is a realistic projection of the potential of the business:

<table>
<thead>
<tr>
<th></th>
<th>@ Jun 2018</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Turnover</td>
<td>R12,0</td>
<td>R17,0</td>
<td>R22,0</td>
<td>R25,0</td>
<td>R24,5</td>
<td>R27,5</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>R0,1</td>
<td>R0,2</td>
<td>R0,2</td>
<td>R0,2</td>
<td>R0,2</td>
<td>R0,2</td>
</tr>
<tr>
<td>Gross profit</td>
<td>R11,9</td>
<td>R16,8</td>
<td>R21,8</td>
<td>R24,8</td>
<td>R24,3</td>
<td>R27,3</td>
</tr>
<tr>
<td>Expenses</td>
<td>R11,0</td>
<td>R13,8</td>
<td>R16,8</td>
<td>R18,0</td>
<td>R19,0</td>
<td>R20,3</td>
</tr>
<tr>
<td>EBITDA</td>
<td>R0,9</td>
<td>R3,1</td>
<td>R5,0</td>
<td>R6,8</td>
<td>R5,3</td>
<td>R7,0</td>
</tr>
<tr>
<td>Interest</td>
<td>R0,5</td>
<td>R0,7</td>
<td>R0,9</td>
<td>R0,7</td>
<td>R0,7</td>
<td>R0,5</td>
</tr>
<tr>
<td>Depreciation</td>
<td>R0,6</td>
<td>R0,7</td>
<td>R0,8</td>
<td>R0,8</td>
<td>R0,8</td>
<td>R0,8</td>
</tr>
<tr>
<td>PBT</td>
<td>-R0,2</td>
<td>R1,7</td>
<td>R3,3</td>
<td>R5,1</td>
<td>R3,8</td>
<td>R5,5</td>
</tr>
</tbody>
</table>

Projected Monthly Income Statement (Rm)
17.15 **Assumptions**

The operational turnaround plan is based on the following key assumptions:

17.15.1 company remains strictly a toll manufacturer;

17.15.2 one new principal per annum;

17.15.3 initial principals are large, then smaller from year 3;

17.15.4 expenses inflate at 10% p.a. (conservative as expenses will be controlled in line with need);

17.15.5 interest initially increases then decreases as business becomes self-funding;

17.15.6 depreciation plateaus at year 3 as investment declines as the plant is up to standard by this stage.

17.16 **Improving Efficiencies**

17.16.1 In ensuring that the business is sustainable, it is vital that costing of manufacture is accurately assessed and transparent to Principals. For this reason, the Company will implement an activity-based costing methodology.

17.16.2 As important, is ensuring that the activities of the business are cost-efficient.

17.16.3 To ensure this cost-effectiveness, processes will be regularly reviewed to continuously improve. There will be a firm focus on plant up-time, labour efficiency and yields.

17.16.4 The need for activities that are not seen as cost-beneficial will be constantly examined. This includes issues such as:

17.16.4.1 manual or double handling;

17.16.4.2 shrink-wrapping of product which is costly in terms of materials, labour and energy;

17.16.4.3 moving filling lines as close as possible to manufacturing to avoid loss in transit;
17.16.4.4 ensuring a trained and stable workforce;

17.16.4.5 improving plant availability by improved maintenance practices;

17.16.4.6 improving plant efficiencies by improved planning and co-ordination with Principals and suppliers;

17.16.4.7 ensuring trained, skilled and motivated leadership; and

17.16.4.8 de-bottlenecking processes and moving towards lean manufacturing.

17.17 Conclusion

Option A brings with it the advantages of:

17.17.1 providing a better return to Creditors than under liquidation;

17.17.2 providing an opportunity and platform for sustained growth of the Company for the benefit of all its stakeholders;

17.17.3 preserving the employment of approximately 500 direct and indirect Employees of, and related to the business of, the Company;

17.17.4 preserving a customer for the suppliers to the Company;

17.17.5 of addressing and rectifying all operational inefficiencies to increase output yields and profitability;

17.17.6 the on-going operations will benefit the fiscus;

17.17.7 creating value and growth for the business which will ultimately benefit the Creditors.

[END OF SECTION]
18 **OPTION B – SALE PROCESS**

18.1 The BRP is of the view that one of the options available in order for the objectives of Business Rescue to be achieved is an orderly and accelerated disposal process. The BRP was constrained by the unavailability of PCF after the advance of the first tranche of R15,000,000 by the IDC and protracted discussions that gave rise to the PCF arrangement referred to earlier and remains constrained going forward, to sustain a protracted disposal process.

18.2 A total of 14 potential bidders initially expressed their interest in a potential transaction involving the Company. Each one of them executed a non-disclosure and confidentiality agreement whereupon they were, with the assistance of the Advisors, provided with access to a data room populated with information relevant to an understanding of the business. The vast majority of those that initially expressed their interest withdrew their interests. Two written offers have been received, and two, possibly three, other offers are expected as at, or soon after, the Publication Date.

18.3 In an attempt to secure the best possible outcome for all stakeholders, including Affected Persons, affected by this Business Rescue, the BRP, assisted by its Advisors, intend to embark on a disposal process involving the entire business of, or shareholding, in the Company. This process will reach out to all 14 potential bidders and others identified by the BRP, and will be subject to the procedures and terms established by the BRP and its Advisors.

18.4 On Wednesday, 4 April 2018 before 17h00, interested parties will be invited to submit the following to the Advisors, by Tuesday, 10 April 2019:

   (a) an expression of interest covering letter in the form specified by the BRP;

   (b) a completed credentials questionnaire in the form specified by the BRP;

   (c) a signed non-disclosure and confidentiality agreement (if not already executed).

18.5 Each of the documents listed in clause 18.4 must be submitted in order to qualify for an expression of interest. The submission of the documents, and the acceptance thereof, will result in the closure of phase 1 of the disposal process.

18.6 After the completion of phase 1, the parties expressing an interest, and accepted by the BRP, will receive access to the data room populated by the BRP with the assistance of the management of the Company. The BRP will not provide access to any additional information, nor update any information in the data room, to anyone.
18.7 The parties selected by the BRP at the end of Phase 1, and to whom access to the data room is provided, will be invited to submit indicative bids in respect of the assets or business of, or shares in, the Company by 17h00 on Thursday, 26 April 2018 (the Bids). Where considered necessary or appropriate by the BRP, the BRP and its Advisors may seek clarity regarding the content of the Bids.

18.8 The following, inter alia, must be addressed and contained in the Indicative Bids:

18.8.1 whether the transaction will involve the acquisition of the assets and business of, or shareholding in, the Company;

18.8.2 the purchase consideration and how much of it is attributed to:

18.8.2.1 Mercantile Bank as the Secured Creditor;

18.8.2.2 Other Creditors (including the IDC and Preference Creditors);

18.8.2.3 Business Rescue Costs;

18.8.2.4 Shareholders;

18.8.3 the form in which the purchase consideration will be settled – in other words, in cash or otherwise;

18.8.4 not in cash, how will the purchase consideration be converted or realised in cash;

18.8.5 the capex and working capital requirements of the Company and how and when these will be advanced to the Company;

18.8.6 all technical expertise and resources experience and track record, aimed at turning around the operations of the Company and continuing with it business operations;

18.8.7 all internal approvals required in respect of any proposed transaction envisaged and the timing to obtain such approvals;

18.8.8 a commitment to retain all Employees in accordance with the provisions of section 197 of the LRA;

18.8.9 an undertaking to conclude the disposal process, and proposed transaction, in a timely manner;
18.8.10 additional benefits that will contribute towards accelerated and sustainable growth of the business and reduction of expenses, for example, whether additional Principals introduced to the Company with the consequential increase in volume; whether certain operational expenses can be merged into existing infrastructure so as to reduce the cost per unit and thereby increase profitability in the manufacture of the end product on behalf of any Principal.

18.9 Prior to the submission of the Bids, and from the date on which the parties selected by the BRP at the end of Phase 1, a due diligence phase will ensue permitting the parties and/or their respective employees, advisors, agents and representatives (provided all of them have countersigned the non-disclosure and confidentiality agreement) to visit the premises and operations of the Company on pre-arranged dates and times, under supervised conditions. During this period, the parties so selected will also be given access to management and all operational personnel of the Company.

18.10 A draft sale agreement, one incorporating an acquisition of the business of the Company as a going concern and another incorporating the acquisition of shares in the Company, will be circulated to the parties selected at the end of Phase 1 during the due diligence phase.

18.11 The Bids can be submitted in any format including a marked-up format of the draft sale agreement provided by the BRP during the due diligence phase. The Bid must be in respect of the business of the Company, as a going concern, or shares in the Company. To the extent that a Bid is contained in an edited and marked-up version of the draft sale agreement the Bid will be taken into account in assessing whether or not it is acceptable.

18.12 The BRP will consider the Bids and enter into negotiations with any of the bidders which, in the BRP’s sole and absolute discretion, is in principle acceptable to the BRP. The aim and objective of this engagement will be to conclude a sale and all other definitive agreements in relation to any proposed transaction.

18.13 Once the Bids are received, and the BRP has indicated in principle which Bid is acceptable to him, the BRP will be entitled, at any stage prior to the execution of transaction agreements, to request the acceptable bidder, within 2 Business Days of being notified that it has been selected as the accepted bidder, to pay a deposit equal to 10% of the purchase consideration, to be held by the Advisors, as escrow agent, on behalf of the BRP, on the terms and conditions of an escrow agreement to be provided by the Advisors simultaneously with such notification from the BRP.
18.14 While the BRP recognises that interested parties may require additional time to assimilate and consider all information provided to them, and to formulate, complete and submit their Bids, the BRP remains desirous to complete the disposal process on an accelerated basis and as quickly as possible. The following is accordingly the envisaged timetable:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date/Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invitation to submit initial expression of interest</td>
<td>Wednesday, 4 April 2018</td>
</tr>
<tr>
<td>Submission of Initial Expression of Interest</td>
<td>Tuesday, 10 April 2018 at 17h00</td>
</tr>
<tr>
<td>Access to data room</td>
<td>Wednesday, 11 April 2018 from 08h00</td>
</tr>
<tr>
<td>Commencement of due diligence</td>
<td>Wednesday, 11 April 2018 from 08h00</td>
</tr>
<tr>
<td>Submission of draft sale agreement to bidders</td>
<td>Friday, 13 April 2018 by 17h00</td>
</tr>
<tr>
<td>Section 151 meeting of Creditors</td>
<td>Monday, 16 April 2018 at 10:00</td>
</tr>
<tr>
<td>End of due diligence, including site visit and engagement with personnel</td>
<td>Wednesday, 25 April 2018 at 17h00</td>
</tr>
<tr>
<td>Submission of Bids</td>
<td>Thursday, 26 April 2018 at 17h00</td>
</tr>
<tr>
<td>Notify preferred bidder/s</td>
<td>Friday, 4 May 2018 at 17h00</td>
</tr>
<tr>
<td>Payment of Deposit into escrow agent account by the selected bidder</td>
<td>Wednesday, 9 May 2018 at 17h00</td>
</tr>
<tr>
<td>Negotiations of final definitive transaction agreements commence with selected bidder</td>
<td>Thursday, 10 May 2018 at 08h00</td>
</tr>
<tr>
<td>Execution of definitive transaction agreements with the selected bidder</td>
<td>Wednesday, 23 May 2018 at 17h00</td>
</tr>
</tbody>
</table>

18.15 **Projected waterfall**

18.15.1 Following the adoption of this Business Rescue Plan, the BRP, acting with his Advisors, having been authorised to do so by the holders of the requisite majority of the Creditors voting interests, shall embark upon a disposal process as outlined under Option B of this Business Rescue plan. Once the BRP is in a position to identify the selected bidder, the BRP will execute all agreements required to give effect to a disposal and implementation of this Business Rescue Plan.

18.15.2 According to s154(1), a business rescue plan may provide that, if implemented in accordance with its terms and conditions, a creditor who has acceded to the
discharge of the whole or part of a debt owing to that creditor will lose the right to enforce the relevant debt or part of it.

18.15.3 According to s154(2), if a business rescue plan has been approved and implemented, in accordance with chapter 6, a creditor is not entitled to enforce any debt owed by the Company immediately before the Commencement Date, except to the extent provided for in the business rescue plan.

18.15.4 For the avoidance of doubt, it is expressly recorded that:

18.15.4.1 this Business Rescue Plan is an offer in full and final settlement of all Claims;

18.15.4.2 the Company will make a Distribution from any sale in accordance with the following waterfall or order of preference:

18.15.4.2.1 the BRP’s remuneration and expenses (s135(3) read with s143);

18.15.4.2.2 the costs and expenses of the Business Rescue which will include, but are not limited to, the costs and charges of Norton Rose Fulbright, the Advisors, Blu Tower and Phuthuma (s135(3));

18.15.4.2.3 remuneration, reimbursement for expenses and other amounts relating to employment which became due and payable after the Commencement Date (s135(3)(a) read with s135(1));

18.15.4.2.4 secured PCF in the order incurred (s135(3)(b) read with s135(2));

18.15.4.2.5 unsecured PCF in the order incurred (s135(3)(b) read with s135(2));

18.15.4.2.6 secured debt;

18.15.4.2.7 remuneration, reimbursement for expenses and other amounts relating to employment which became due and payable before the Commencement Date (s144(2)); and
18.15.4.2.8 unsecured debt as the Substantial Implementation Date.

18.15.5 The mechanism of any transaction concluded pursuant to the disposal process outlined in option B will take the form of either a disposal of 100% of the shareholding of the Company or the entire business and its assets as a going-concern. In order to illustrate the sequence of payments outlined above, the table provides an illustration and estimate of the potential distribution to Creditors of the Company in terms of this Business Rescue Plan. Affected Persons must however note that this table is no more than an illustration of the waterfall and is by no means binding on the BRP or its Advisors. Furthermore, the table assumes a transaction value, derived from the disposal process, of R100 000 000:

<table>
<thead>
<tr>
<th>Waterfall</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds realised on disposal</td>
<td>R100,000,000</td>
</tr>
<tr>
<td>BRP remuneration and expenses (s135(3))</td>
<td>R2,500,000</td>
</tr>
<tr>
<td>Estimate costs of Business Rescue proceedings (s135(3))</td>
<td>R3,500,000</td>
</tr>
<tr>
<td>Employees post-Commencement Date Claims (s135(3)(a) and 135(1))</td>
<td>R0</td>
</tr>
<tr>
<td>Secured PCF</td>
<td>R0</td>
</tr>
<tr>
<td>Unsecured PCF1 – IDC</td>
<td>R14,100,00</td>
</tr>
<tr>
<td>Unsecured PCF2 – Redefine</td>
<td>R3,000,000</td>
</tr>
<tr>
<td>Unsecured PCF3 – Mercantile Bank</td>
<td>R3,000,000</td>
</tr>
<tr>
<td>Unsecured PCF4 – SARS</td>
<td>R2,000,000</td>
</tr>
<tr>
<td>Secured creditor – Mercantile Bank</td>
<td>R48,000,000</td>
</tr>
<tr>
<td>Employees pre-Commencement Date Claims</td>
<td>R0</td>
</tr>
<tr>
<td>Unsecured creditors (excluding subordinated creditors)</td>
<td>R202,000,000</td>
</tr>
</tbody>
</table>

18.15.6 The illustration above postulates a distribution in full settlement of all Claims for PCF and the secured Claim of Mercantile Bank, together with all Business Rescue reflated costs and expenses.

18.15.7 The balance, after settlement of all the Business Rescue costs and expenses, secured and unsecured PCF Claims and the Secured Claim of Mercantile Bank will
be applied pro-rata in part payment of the Claims of the unsecured Creditors. On the figures postulated on the table above, this will result in an estimated Distribution to unsecured Creditors of 20,7 cents in the Rand.

19  **OPTION C – STRUCTURED WIND-DOWN OF THE COMPANY**

19.1 In the event of the Proposed Sale Process failing for any reason, the BRPs propose in terms of this Business Rescue Plan that the Business Rescue proceeds in accordance with Option C.

19.2 This would entail a better return for the Company's creditors or shareholders than would result from the immediate liquidation of the Company through the sale of all of the Company's assets, by way of private treaty or public auction, as opposed to the sale of the Company as a going concern.

19.3 The advantages of proceeding with Option C are as follows:

19.3.1 professional fees and administration costs would be lower compared to liquidation proceedings; and

19.3.2 timing of distribution/s should be faster than in liquidation proceedings;

19.3.3 the assets will be realised at market related values as opposed to forced sale values in liquidation proceedings.

20  **EFFECT ON CREDITORS**

20.1 **Contracts**

In the event that the Business Rescue proceeds in terms of Option C, there will be no continuation of the Business and accordingly there will be no continuation of Contracts.

20.2 **Damages**

In the event that Creditors claim damages, whether contractual or delictual, against the Company, which damages Claim is accepted by the BRP or proved by way of the Dispute Mechanism or by Court or similar proceedings, such damages Claims:

20.2.1 will include any claim based on a guarantee or a suretyship given by the Company to any Creditor where the guaranteed debt (in the case of a guarantee), or the principal debt (in the case of a suretyship), comprises a damages claim arising from any Contract, including any delictual claim against the Company;
20.2.2 must be brought against the Company before the Final Claims Date, failing which, a Creditor in these circumstances will be precluded from bringing a damages claim against the Company;

20.2.3 shall be a concurrent Claim;

20.2.4 will be limited to actual direct damages suffered over the lesser of 6 months from the date on which the alleged damages Claim arose or the balance of the Contract duration;

20.2.5 will exclude all consequential and indirect damages, loss of profit, penalty and early termination claims; and

20.2.6 if disputed, will be resolved in terms of the Dispute Mechanism, detailed in part D.

21 EFFECT OF THE BUSINESS RESCUE PLAN ON THE HOLDERS OF EACH CLASS OF THE COMPANY’S ISSUED SHARES

Due to the indebtedness of the Company relative to the cash generation of its investments, it is not possible to return any value to the holders of the issued share capital.

22 ORDER OF DISTRIBUTION – PAYMENT WATERFALL IN BUSINESS RESCUE

22.1 In terms of the Companies Act, Creditors will be paid the distributable amount in the order of priority and set out in clause 18.15.4.2 (to the extent that there are funds available to pay all categories of Creditors).

22.2 For the sake of clarity, Concurrent Creditors include, but are not limited to:

22.2.1 Secured Creditors, who will be paid to the extent that their security is realised, however, any residual amount owing after the realisation of security held by secured Creditors will be treated as a Concurrent Claim; and

22.2.2 unsecured creditors of the Company.

23 PROOF OF CLAIMS BY CREDITORS

23.1 Creditors are required to lodge their Claims prior to the Final Claims Date for purposes of participating in the Distribution.
23.2 The BRP has a discretion as to whether to allow a Creditor to lodge any Claim after the Final Claims Date, provided, in terms of Option A, that no Creditor will be allowed to lodge a Claim after the Implementation Date.

23.3 Creditors that have lodged Claims after the Final Claims Date, and whose Claims have been accepted by the BRP in the exercise of the BRPs’ aforesaid discretion, forfeit their right to participate in distributions that have been made prior to the lodgement of their Claims.

23.4 Claims shall be proved to the satisfaction of the BRP.

23.5 In the event that the BRP dispute a Claim or security, such disputed Claims will be dealt with in accordance with the Dispute Mechanism more fully dealt with in Part D.

24 BENEFITS OF ADOPTING THE BUSINESS RESCUE PLAN COMPARED TO LIQUIDATION

The benefits to Creditors of adopting the Business Rescue Plan compared to a liquidation are as follows:

24.1 Quantum

24.1.1 The dividend that would be received by Creditors on a liquidation of the Company would be lower than the dividend that is anticipated to be received by Creditors as a result of Business Rescue.

24.1.2 By way of illustration, please refer to the projected waterfalls which appear above clause.

24.2 Timing

The average time it takes to conclude a liquidation process can be between 18 – 24 months, or longer depending on the complexity of the estate.

24.3 Fees

24.3.1 The BRP submit that the entire costs of the Business Rescue will be significantly lower than the liquidation costs.

24.3.2 The estimated fees a liquidator would be entitled to in terms of the liquidation calculation is approximately R15 million based on the realisation of the assets.
24.4 **PCF**

The BRP is able to access PCF for the duration of the Business Rescue to cover the administrative costs of the process.

24.5 **SARS**

SARS ranks as a concurrent credit under Business Rescue, whereas, under liquidation, SARS would rank as a preferential creditor.

25 **RISKS OF THE BUSINESS RESCUE**

25.1 Notwithstanding what has been stated in this Business Rescue Plan, the Business Rescue and the amount which Creditors could receive in terms of the Business Rescue may be adversely affected by, *inter alia*, the following factors:

25.1.1 the fulfilment of the conditions precedent in terms of the Proposal taking longer than expected and/or the Proposal failing for any reason;

25.1.2 unforeseen litigation of any nature whatsoever, howsoever arising, from any cause of action whatsoever;

25.1.3 unforeseen damages claims arising from the cancellation of any contracts or agreements of any nature whatsoever, howsoever arising;

25.1.4 any changes in legislation that impact Business Rescue;

25.1.5 any challenges to this Business Rescue Plan, the rejection thereof or any amendments thereto;

25.1.6 any regulatory challenges of any nature whatsoever, howsoever arising;

25.1.7 any unforeseen circumstances, outside of the control of the BRP of any nature whatsoever howsoever arising that impacts on Business Rescue;

25.1.8 material discrepancies in the information made available to the BRP by the Directors and senior management.

25.2 It should be noted that, in the unlikely event of an immediate liquidation of the Company, the risks set out in this clause 28 would still apply.

[END OF SECTION]
PART C – ASSUMPTIONS AND CONDITIONS

26 CIRCUMSTANCES IN WHICH THE BUSINESS RESCUE WILL END AND THE TERMINATION OF BUSINESS RESCUE

The Business Rescue will end –

26.1.1 if the Business Rescue Plan is proposed and rejected and no Affected Person or Affected Persons act to extend the Business Rescue Plan in any manner contemplated by the Companies Act; or

26.1.2 this Business Rescue Plan is adopted and implemented (with the suspensive conditions fulfilled) and the BRPs have filed a notice of substantial implementation of the Business Rescue Plan with the CIPC; or

26.1.3 a High Court orders the conversion of the Business Rescue into liquidation proceedings.

27 CONDITIONS FOR THE BUSINESS RESCUE PLAN TO BE FULLY IMPLEMENTED

27.1 Substantial implementation will be deemed to have occurred upon all of the following have taken place:

27.1.1 in the event of the Business Rescue proceeding in terms of Option A: the Operational Turnaround Plan being fully implemented and a final payment is made to discharge Claims of Creditors in full;

27.1.2 in the event of Business Rescue proceedings in terms of Option B: the closing date of a definitive sale transaction concluded in terms of the proposed sale process; and

27.1.3 in the event of the Business Rescue proceeding in terms of Option C: all of the Company’s assets are realised and a Distribution is made.

28 EFFECT OF THE BUSINESS RESCUE PLAN ON EMPLOYEES

The effect of this Business Rescue Plan on Employees is as follows:

28.1 in respect of Option A: as set out in clause 17 above;
28.2 in respect of Option B: as agreed with the selected bidder and contained in the definitive sale transaction concluded pursuant to the proposed sale;

28.3 in respect of Option C: all Employees will remain employed until the conclusion of the wind down and payment of a distribution is made to Creditors.

29 **PROJECTED BALANCE SHEET AND PROJECTED STATEMENT OF INCOME AND EXPENSES PREPARED ON THE ASSUMPTION THAT THE BUSINESS RESCUE PLAN IS ADOPTED**

29.1 The projected balance sheet, income statement and cash flow in respect of Option B is attached as Annexure E1, E2 and E3 respectively.

29.2 The projected balance sheet, income statement and cash flow is based on the Company exiting Business Rescue by 1 July 2018. It also postulates a sale or disposal transaction being concluded with an amount of R75 000 000 coming into the Company by 30 June 2018, and a new 48 month medium loan facility, secured in the same way as a similar facility was to Mercantile Bank.

29.3 It further postulates the settlement of business rescue related expenses, PCF Claims and the Claims of the Secured Creditor. The Claims of unsecured Creditors will be compromised.

29.4 As from 1 July 2018, the Company will continue to operate on a free issue business model eliminating the need for working capital to source and hold inventory. The forward projection model attached also assumes that the four largest Principals maintaining their relationship with the Company, and that the Company achieves the production level of 6,160,000 units at an average invoice price of R2,15 per unit.

29.5 **EXISTING LITIGATION**

All parties who have instituted legal proceedings, including any enforcement action, in respect of any Claims against the Company in any forum will be subject to the provisions of Part B clause dealing with proof of claims.

[END OF SECTION]
30 **DISPUTE RESOLUTION**

30.1 As provided for in section 133 of the Companies Act, in respect of all or any disputes by the BRP on Claims submitted by Creditor(s) and PCF Creditors, which disputes include, but are not limited to, disputes on the existence or otherwise of Claim(s), on quantum of Claim, security claimed by a Creditor, the nature of the security, the extent and value of the security and the like ("the dispute") such dispute may be resolved in accordance with the dispute mechanism outlined below ("the Dispute Mechanism").

30.2 The dispute mechanism procedure will be as follows:

30.2.1 All creditors who have received notification from the BRP of a dispute are within 15 days after the Final Claims Date, to contact the BRP and to meet with the BRP during this period in an attempt to reach agreement on the dispute.

30.2.2 If the Creditor does not avail itself of this 15 day opportunity or if after having availed itself and the dispute is not resolved within the 15 day period, the Creditor will be afforded 7 days (reckoned from the date of expiry of the 15 days) to nominate one of the retired judges from the list below as an expert (not as an arbitrator or mediator) to preside over and to resolve the dispute. Should the Creditor not make this nomination the BRP will do so on his/her/its behalf and this nomination will be binding on the Creditor(s). The list of these retired judges are:

30.2.2.1 E. Goldstein;
30.2.2.2 L. Harms;
30.2.2.3 F.P Malan; and
30.2.2.4 M. Joffe.

30.2.3 The retired judge when nominated and who agrees to accept such appointment (hereinafter referred to as the "expert") will endeavour to complete his mandate within 30 days of his appointment or within such further time period as the expert in his sole discretion may determine. To the extent that any expert as nominated by the Creditor
or PCF creditor refuses to act or is not available to act, the Creditor, or if he refuses or does not do so within three days of being requested by the BRP to do so, the BRP on his/her/its behalf is then obliged to choose another retired judge(s) from the above list until one such judge is available to act and is agreeable to act.

30.2.4 The expert will in his/her sole and absolute discretion determine:

30.2.4.1 the venue at which the dispute is to be resolved;

30.2.4.2 the rules, regulations and procedures that will govern the determination of the dispute;

30.2.4.3 the date(s) for the determination of the dispute;

30.2.4.4 will give his award/determination within 5 days of the completion of the process as determined by him/her;

30.2.4.5 will as part of his/her award/determination determine who is liable for the costs of the determination such costs to include his/her costs, legal costs, venue costs, recording equipment (if applicable), transcript of evidence (if applicable) and the like.

30.2.5 The Creditor/s agree that, save for any manifest error the determination of the expert will be final and binding on the Creditor/s, the Company and the BRP and will not be subject to any subsequent review or appeal application/procedure/process.

30.2.6 The expert shall be entitled to make an award for costs in his/her discretion.

30.2.7 The Creditor, the Employee/s, the Company and the BRP agree to use their utmost endeavours to ensure that the entire dispute is determined by the expert within the 30 day period as set out above.

30.2.8 To the extent necessary, should the BRP be of the view that certain disputes, may be settled or compromised, the BRP shall be authorised to settle and compromise such a dispute.

30.3 Prior to the determination of the dispute, the BRP may in his sole and absolute discretion decide that the dispute mechanism is not appropriate for resolving the dispute and/or that the application of the dispute mechanism may result in prejudice to other Creditors or the Company. In such event, the creditor(s) concerned shall be entitled in terms of 133 of the
Companies Act to refer the dispute to Court and if an expert has already been nominated, such nomination shall lapse and be of no further force or effect.

31 **ABILITY TO AMEND THE BUSINESS RESCUE PLAN**

Provided that any amendment will not be prejudicial to any of the Affected Persons, the BRP shall have the ability, in his sole and absolute discretion, to amend, modify or vary any provision of this Business Rescue Plan, provided that at all times the BRP act reasonably. The amendment will be deemed to take effect on the date of written notice of the amendment to all Affected Persons.

32 **SEVERABILITY**

Any provision in this Business Rescue Plan which is or may become illegal, invalid or unenforceable shall be ineffective to the extent of such prohibition or unenforceability and shall be treated *pro non scripto* and severed from the balance of this Business Rescue Plan, without invalidating the remaining provisions of this Business Rescue Plan or affecting the validity or enforceability of such provision in any other jurisdiction.

33 **CONCLUSION**

33.1 For the reasons set out above:

33.1.1 the implementation of the Business Rescue Plan, Option A or Option B will result in Concurrent Creditors receiving a dividend that will exceed the estimate in the illustrative liquidation calculation prepared by Phuthuma Corporate, subject to the Option A or Option B being fully implemented; and

33.1.2 should the Business Rescue Plan not be approved and adopted, the BRP is of the view that Business Rescue would have to be converted into liquidation proceedings immediately.

[END OF SECTION]
34. **BRP CERTIFICATE**

34.1 I the undersigned, Phahlani Lincoln Mkhombo, hereby certify to the best of my knowledge and belief that –

34.1.1 any actual information provided herein appears to be accurate, complete and up to date;

34.1.2 the BRP has relied on financial information including opinions and reports furnished to me by Management and the Advisors;

34.1.3 any projections provided are estimates made in good faith on the basis of factual information and assumptions as set out herein;

34.1.4 in preparing the Business Rescue Plan, the BRP has not undertaken an audit of the information provided to me by Management and by the Company's auditors, although where practical, the BRP has endeavoured to satisfy himself of the accuracy of such information.
Date: 29 March 2018

Phahlani Lincoln Mkhombo, in my capacity as the appointed Business Rescue Practitioner (in terms of the Companies Act)