DISTRIBUTION AND WAREHOUSING NETWORK LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1984/008265/06)
Share code: DAW
ISIN code: ZAE000018834
("DAWN" or "the Company")

POLANOFIELD PROPRIETARY LIMITED
Incorporated in the Republic of South Africa)
(Registration number 2018/556404/07)
("Offeror")

UPDATE ON DPI WIND DOWN

INTRODUCTION

Shareholders are referred to the unaudited 30 September 2018 Interim Financial Results ("Interim Results") issued on 5 December 2018 in which shareholders were advised of the decision by the DAWN board to commence with the closure of DPI Plastics Proprietary Limited ("DPI")'s operations and the classification of its property and equipment assets as held-for-sale, as repeated in the circular dated 20 December 2018 ("Circular").

BACKGROUND

DPI, a wholly-owned subsidiary DAWN, was a manufacturer and supplier of SABS-approved Polyvinyl chloride ("PVC") and High Density Poly Ethylene ("HPDE") pipes and fittings for various applications, including the civil engineering, building and construction, industrial, mining and agricultural/irrigation sectors. As reported, DPI's financial performance was severely affected by a fundamental decline in sales performance, high levels of scrap and its prevailing high cost structure, very outdated and inefficient machinery, fierce competition, and extremely low margins over the reporting period ended 30 September 2018. The process of curtailing costs in DPI was started in 2017 with the closure of the Cape Town manufacturing plant. This business had been facing dire market and operating conditions as a result of reduced government spending. Added to this, a crippling strike action placed severe strain on the business and accordingly the DAWN group. Despite multiple actions taken by management to turn the business around, the business continued to be in a substantial loss-making position and consumed an unbearable level of the group's cash flow, placing the sustainability of the group as a whole at risk. As a result of the financial position, and with no other viable alternatives, management and the board decided to proceed with a closure process prior to the release of the Interim Results. Accordingly, DPI was classified as a discontinued operation and disclosures were performed in terms of IFRS 5 in the Interim Results.

Following the decision to proceed with the closure of DPI, management considered its options as to how to proceed with effecting the closure. The most favourable option, which management believed was in the best interests of shareholders and all stakeholder groupings was to effect an orderly wind-down of DPI outside of a formal process. The expectation by management was that sufficient proceeds from collections and from the sale of the sum total of all DPI assets (of which the sale assets referred to below form a part) would be realised to discharge DPI's liabilities, so that DPI could be wound-up on a zero-sum basis. This is of further importance due to cross-guarantees which are in place for certain liabilities.

DISPOSAL OF HDPE PROPERTY AND EQUIPMENT ASSETS

Subsequent to the decision to close DPI's HDPE operations, a tender auction process was embarked upon to realise a return for the remaining HDPE property and equipment assets ("HDPE Assets") in order to settle DPI's liabilities, and at a broader level sustain the DAWN group's operations. This process commenced on 15 October 2018. The tender process was pursued in order to obtain the best return for the individual assets. Assets were listed on a line by line basis and various parties expressed interest in the assets and subsequently purchased individual assets through separate cash transactions from November 2018 until January 2019. Over the period a total amount of R4,9 million in cash, was realised for the HDPE Assets, against a book value of R0,7 million included in the Interim Results prepared on an IFRS basis, with which management is satisfied, translating into an accounting profit of R4,2 million, due to impairments that had been processed previously. The aggregate sale proceeds received over the period would have at some point, considered retrospectively, rendered the numerous underlying transactions (when aggregated) a category 2 transaction under the JSE Listings Requirements. All sales are concluded with no conditions precedent outstanding. The loss after tax of the DPI discontinued operations attributable to HDPE operations for the six months ended 30 September 2018 is R19,6 million, included in the Interim Results prepared on an IFRS basis, with which management is satisfied.

DISPOSAL OF PVC PROPERTY AND EQUIPMENT ASSETS

Subsequent to the decision to close DPI, a tender auction process was further embarked upon to realise a return for the remaining PVC property and equipment assets ("PVC Assets").

Due to severe liquidity constraints and rising pressure from DPI's creditors, management resolved to dispose of the PVC Assets in an effort to ensure to the orderly wind up of DPI outside of any formal process.

Similar to the HDPE Assets, the tender auction process was deemed the most suitable route to source the best return for the assets, in the current situation. The PVC Assets were, however, offered as a collective (lot) and not on an individual basis. Through finalisation of the tender auction process on 23 November 2018, an offer received from Swan Plastics Proprietary Limited ("Swan"), for a consideration of R30 million for the lot (excluding VAT and commission) was evaluated as the best alternative. Following approval by the South African Competition Commission of the sale to Swan on 22 January 2019, Swan and DPI entered into a formal agreement on 6 February 2019 to regulate such sale. This sale is classified as a category 1 transaction for the purposes of the JSE Listings Requirements. The material terms of the sale are as follows:

- The sale is subject to (i) shareholder approval under sections 112/115 of the Companies Act No 71 of 2008 by DPI and DAWN and to the extent that DAWN is still listed, as a category 1 transaction under the JSE Listings Requirements; (ii) the Takeover Regulation Panel exempting the sale from compliance with Parts B and C of Chapter 5 of the Companies Act and the Takeover Regulations; (iii) the requisite shareholders of DPI and DAWN have waived the requirement for the parties to comply with Parts B and C of Chapter 5 of the Companies Act and the Takeover Regulations (collectively the "Conditions Precedent"). The Conditions Precedent are required to be fulfilled by 28 February 2019.

- Of the PVC Assets disposal proceeds, an amount of R25 million has been received in cash as a deposit and the balance will be paid within 48 hours of the date on which ownership of the intellectual property comprising the PVC Assets has been transferred to Swan ("Closing Date").

- Ownership of and risk to the PVC Assets will pass on the Ownership Date, being the date when the Conditions Precedent have been fulfilled. Delivery of the PVC Assets will be effected on the Closing Date.

- DPI has given a security pledge and cession in favour of Swan to secure its obligations under this agreement against the PVC Assets.

The consideration of R30 million against the Book Value of R27 million included in the Interim Results prepared on an IFRS basis, with which management is satisfied, yields an accounting profit of R3 million due to impairments processed previously. The loss after tax of the DPI discontinued operations attributable to PVC operations for the six months ended 30 September 2018 is R108,1 million, included in the Interim Results prepared on an IFRS basis, with which management is satisfied.

IMPACT ON THE OFFER

Shareholders were advised through the Circular that the Offer prevented management from entering into agreements other than in the ordinary course of business prior to closing date, except in the case of the disposal of DPI’s Assets, which was permitted by the Offeror. The orderly winding up of DPI was critical in ensuring DAWN’s operations are sustained while the Offer is pursued and remains on track.

The Independent Board, as defined in the Circular, highlights that the independent expert who prepared the fair and reasonable in relation to the Scheme (as defined in the Circular), namely BDO Corporate Finance Proprietary Limited (“BDO”), valued DPI at the time as follows: “For the purpose of the Fair and Reasonable Opinion, DPI Plastics was included in the sum-of-the-parts valuation of DAWN (the “SOTP”) according to the net asset valuation methodology on a liquidation basis (“NAV”). As the carrying value of DPI Plastics’ liabilities exceeded its assets according to its statement of financial position, a nominal value of R1 was attributed to the company.”

Out of prudence, DAWN has obtained fresh confirmation from BDO that the above contemplated sales by DPI do not and will not alter their original opinion. BDO stated as follows: “In determining the impact of the valuation of DPI to our sum of the parts valuation performed for the purpose of the Transaction, we confirmed a zero value attributable per Scheme Share after taking into account all outstanding liabilities and commitments. The Offer Consideration is considered to be fair as the Offer Consideration in the amount of R0,01, falls above the fair value per Share.”

Accordingly, the opinion of BDO remains unchanged, and is available for inspection at the registered office of DAWN.

The Independent Board of DAWN has considered the confirmation of BDO as set out above and is in agreement thereof.

THE INDEPENDENT BOARD AND BOARD RESPONSIBILITY STATEMENT

The Board and the Independent Board (to the extent the information relates to DAWN), collectively and individually, accept responsibility for the information contained in this announcement and confirm that, to the best of each member’s respective knowledge and belief, the information contained in this announcement is true and does not omit anything likely to affect the importance of such information.

OFFEROR RESPONSIBILITY STATEMENT

Offeror (to the extent the information relates to Offeror), accepts responsibility for the information contained in this announcement and confirms that, to the best of its knowledge and belief, the information contained in this announcement is true and does not omit anything likely to affect the importance of such information.

Germiston

6 February 2019

SPONSOR:
Deloitte & Touche Sponsor Services (Pty) Ltd

LEGAL ADVISOR:
ENSafrica (Edward Nathan Sonnenbergs Incorporated)