TONGAAT HULETT LIMITED
(Incorporated in the Republic of South Africa)
Registration number 1892/000610/06
Share code: TON
ISIN ZAE000096541
("**Tongaat Hulett**" or "**Company**")

DEBT BURDEN RESULTS IN TONGAAT HULETT LIMITED AND TONGAAT HULETT DEVELOPMENT PROPRIETARY LIMITED ENTERING BUSINESS RESCUE OTHER OPERATIONS WILL CONTINUE TRADING UNINTERRUPTED

Shareholders are referred to the Company's previous announcements released on SENS, with the most recent being 14 October 2022. These announcements informed shareholders that the Company's debt levels remain well in excess of what can be serviced, that delays experienced in the recapitalisation have worsened the situation, and that a debt restructuring plan to address both the excess debt and a c.R1.5 billion shortfall in working capital facilities was approved by the Tongaat Hulett board of directors ("Board") and submitted for consideration to the relevant stakeholders.

Background

The extent of the challenges faced by the Company and its current strained financial position are well publicised and arose from years of high and increasing debt levels, alleged financial misstatements and historic mismanagement under previous leadership. These factors have resulted in the loss of significant value for shareholders.

Since 2019, under a new leadership team and Board, the Company's comprehensive turnaround strategy sought to introduce a process to address these challenges. Good progress was made on a variety of fronts, including realising cost savings and improving liquidity management. Debt, specifically, has been reduced by more than R6.6 billion from a high of R11.7 billion, through the selected sale of non-core, and in certain instances core, assets.

Despite the good progress on debt reduction initiatives, however, Tongaat Hulett remains unable to service its residual debt, the majority of which (c.87%) is carried by the cash flows of the South African sugar operation, the property business and dividends and operational support fees received from the non-South African sugar operations. Recent monetary policy changes within Zimbabwe have also impacted sugar prices and cash flows, limiting the availability of surplus cash for dividend distribution, while the repatriation of funds from Mozambique is prohibited by the in-country debt agreements.

The South African turnaround efforts were also more recently hampered by the COVID-19 pandemic and the riots and floods in KwaZulu Natal. Operational headwinds were encountered in the form of the sugar loss at the refinery and poor milling performance, which revealed inadequate historic plant maintenance. In addition, at the end of the 2022 financial year, the working capital requirements of the South African sugar operation increased significantly with slower-than-expected sugar sales and a normalisation of inventory levels post the refinery loss.

The factors described above have placed significant pressure on the Company's liquidity and have contributed to a shortfall in the Company's working capital facilities necessary to fund the peak working capital funding requirements to complete the 2023 financial year. The financial position continues to worsen, with interest accumulating on the excess debt balances. This position has been exacerbated by delays experienced in the recapitalisation of the Company, particularly the planned equity capital raise (rights issue) which failed in June 2022, due to regulatory and other requirements.

Restructuring plan

On 14 October 2022, the Board approved a debt restructuring plan developed by the Company's chief restructuring officer and designed to repay the Company's excess debt and address its liquidity constraints. The restructuring plan broadly envisaged the following:

- Disposing of the non-South African sugar operations;
- Securing a sponsor to support the capital reinvestment required by the South African sugar operation;
- Introducing a five-year debt instrument repayable through the disposal of certain of the Company's landholdings;
- Progressing the respective legal claims arising from the alleged financial misstatements; and
- Aligning the Company's corporate office with the smaller operating footprint.

While interest had been expressed by both existing shareholders and potential new equity investors to support the recapitalisation of the Company and retain its existing operating footprint, to date, the amount of potential equity and time frames within which it may have become available, precluded a solution to the Company's excess debt problems.

The Board believes that it would have been possible to restructure the Company's affairs and implement the aforementioned debt restructuring plan, provided that adequate bridge funding was available to meet the peak working capital requirement for the 2023 financial year and to allow the completion of the off-crop programme for the following season (as payment terms for such programme extend into the 2024 financial year).

Rationale for business rescue

The operational and cash flow performance of the Company's South African sugar operations has exceeded expectations, and the Zimbabwe sugar operation has started to remit fee income to the Company. Notwithstanding these positive outcomes, due to delays in concluding property sales and higher restructuring costs, the Company has only managed to defer the onset of the liquidity shortfall and not reduce the peak funding requirement. Efforts to raise the balance of the funding requirement through the disposal of assets or from existing shareholders have not been possible in the time available, particularly with the shareholder approvals that would be required. The Company also initiated engagements with other potential funders outside the existing lender group, and while initially positive, these efforts did not culminate in additional funding becoming available.

The South African lender group has remained supportive of the Company and has worked constructively with management over the past three and a half years to assist the Company in addressing its liquidity constraints. In this regard and to assist towards a c.R1.5 billion working capital shortfall, the lenders advanced a new short-term borrowing base facility of R600 million on 29 July 2022, which is now due for repayment.

In the absence of alternative sources of funding, the Company requested the South African lender group to consider providing the additional necessary funding required to support the implementation of the restructuring plan. The South African lender group has informed the Company that in all of the circumstances of the restructuring plan, they are unable to support the restructuring plan or to provide the additional funding required. Consequently, the repayment date of the borrowing base facility will not be extended.

Without the required additional funding, and an extension of the repayment date of the borrowing base facility, and having taken extensive legal advice, the Board has determined that Tongaat Hulett is facing circumstances constituting “financial distress” within the definition contained in section 128 of the Companies Act 71 of 2008 (“Companies Act”). The Board, in the interests of all stakeholders, has resolved to commence with voluntary business rescue proceedings for the Company, as provided for in terms of section 129 of the Companies Act. The Board believes that this action is the most responsible in the circumstances and is reasonably likely to result in a better return to creditors than a liquidation.

Due to the dependency of Tongaat Hulett Developments Proprietary Limited (“THD”) on the Company for its funding, THD has also commenced voluntary business rescue proceedings. Tongaat Hulett’s Botswana, Mozambique and Zimbabwe sugar operations are not financially distressed and therefore will presently continue trading in the ordinary course. These three businesses are funded independently from the Company and should be largely unaffected by the adverse circumstances affecting the Company.

The Board has appointed Trevor Murgatroyd, Peter van den Steen and Gerhard Albertyn of Metis Strategic Advisors as the business rescue practitioners of the Company and THD. The appointed business rescue practitioners are deeply experienced and well-qualified, having completed various high-profile business rescues in South Africa in recent years.

The business rescue process

The business rescue practitioners will investigate the affairs of the group, consider the various options available and develop a business rescue plan for consideration by the company’s affected persons.

The Company has lodged the requisite documents with the Companies and Intellectual Property Commission (“CIPC”) on 27 October 2022 and awaits confirmation of filing from the CIPC.

The sworn affidavit that was submitted to the CIPC to support the commencement of business rescue proceedings is available at https://www.tongaat.com/wp-content/uploads/2022/10/THL-Sworn-Statement_BR-Execution7755968.1.pdf

The way forward

The Company remains committed to maintain communication with all stakeholders throughout this process. An announcement concerning the expected timing of the rescue plan being published will be made in due course.

Tongaat Hulett's shares will remain suspended on the JSE. Shareholders will be updated as further material information becomes available and are advised to continue to exercise caution in relation to the Company.

Tongaat
27 October 2022

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