



African Dawn

capital limited

Historical information

African Dawn Capital Limited (“Afdawn”) began life around 1998 as a micro finance Company which, following its listing on the Alternative Exchange of the JSE in 2004, grew into a niche finance provider covering micro finance, debtor discounting and structured property finance. The driving force behind the business was Mr JM van Tonder. Utilising internal expertise professional advisors, strategic alliances and acquisition the Group grew significantly following its listing. With the spectacular rise in its share price, Afdawn was able to acquire additional businesses and utilise shareholders funds to grow its loan books.

Lending was concentrated on individuals and businesses that needed funding to develop, build and grow wealth, on the one hand, and a burgeoning micro finance customer base on the other. In 2009 the Group had significant exposure to the property sector where aggressive expansion had been pursued in, mainly, property developments. The Group faltered in 2009 due to the increase in doubtful loans and the concomitant collapse in the property markets. This impacted significantly on the Group but more so the majority of Afdawn’s Executive Management who, based on the meteoric rise in the share price, had entered into a highly geared single stock structure with Nedbank. The falling Afdawn share price triggered margin calls by Nedbank which, when they were not settled, lead to Nedbank exercising their security and thereby becoming the single biggest shareholder in Afdawn.

The majority of the Executive Directors were subsequently removed from the Board at the Company’s Annual General Meeting in October 2009. The affected Executives were JM van Tonder (CEO), CM van Nieuwkerk (CFO) and CDW Vivier (COO). The one remaining Executive Director was removed shortly thereafter. At the AGM the shareholders requested the remaining Non- Executive Directors to co-opt additional independent Directors with suitable financial market expertise and experience to guide the Company forward.

Overview of the Company

The newly constituted Board, under the Chairmanship of RR Emslie, called for a limited forensic review of the Company and some of its subsidiaries. The scope of the forensic review included:

- a review of Nexus, in particular the possible misappropriation of funds by employees or agents of Nexus;
- the possible manipulation of the Afdawn and/or Nexus financial statements for the year ended 28 February 2009;
- the dealing in Afdawn shares, and
- the possible manipulation of the Afdawn share price.

The report revealed fraud and mismanagement in Nexus and Afdawn. Afdawn is currently co-operating with the various authorities in their investigations of the Group's Directors and advisors. As part of the normalisation of the business, Grant Thornton was appointed as auditors to the entire Group.

In July 2010 Nedbank agreed to sell the majority of their shareholding to PCI, with the remaining shares being sold to a fund manager. Shortly thereafter there were further changes to the Board with the appointment in July 2010 of Peter Gordon as Executive Chairman and Lynette Taylor as an independent non Executive Director. Tjaart Kruger was appointed as Financial Director in August 2010.

The audited financial statements for the prior year ended 28 February 2010 reflect the extent of the financial collapse which started in 2008 – in particular the reader is referred to note 30 of the annual report which reflects prior year adjustments of some R114 million in 2008 and R244 million in 2009. Further write downs of R190 million were effected in the 2010 annual accounts which lead to a write down R548 million in Group capital. The net result was a reduction in the Net Asset Value of the Group to R24 million as at 28 February 2010. This reduced further by the half year to R13 million as a result of limited trading in the period due to a lack of capital.

As part of the turnaround, the Group has been rationalised into two distinct areas of expertise; personal finance and structured lending. All non-essential subsidiaries have been or are in the process of being closed. Through the aggressive recovery of loans in default plus an improvement in the systems employed in the personal finance businesses, the Group was able to improve its Net Asset Value to R26.1 million and return a profit of R3.6 million for the year ended 28 February 2011.

The Board identified three issues critical to the continued trading of the Group, namely:

- Settlement of the NHFC Loans, the details of which are included in the introduction above.
- Agreement with SARS on the revised and outstanding tax liabilities. Negotiations have been extremely positive and are well advanced with SARS on agreeing both the outstanding liability as well as assessing the taxable losses across the Group. The financial accounts include a provision of R14 million for the estimated outstanding tax liability including penalties and interest. In addition, the Group enjoys estimated tax losses of R70 million. Whilst the tax liability, including interest and penalties, is fully provided in the annual financial statements, no account has been taken of any deferred tax asset in respect of the estimated tax losses to be carried forward for use against future profits.
- A yet to be substantiated claim by the Curators of Allegro Holdings (Proprietary) Limited, a subsidiary of Afdawn which was placed in voluntary curatorship by the Board in 2009. Correspondence with the Curators is ongoing.

Since the removal of the majority of the Executive Directors in 2009 and ascertaining the extent of the financial mismanagement of the Group, the Board has concentrated on stabilising the Group. This has involved ascertaining the extent of the fraud and the implications thereof, implementing proper governance and controls, closing down non performing businesses and cutting overhead costs. Notwithstanding the extreme shortage of working capital the Group has managed to continue trading in its personal finance division and has managed to carry the cost of the collections in the

loan division. The Board is unanimous in its view that the Group is viable subject to recapitalising the existing operations.

African Dawn Capital Limited is registered with the Financial Services Board, as well as the National Credit Regulator and is member of the National Debt Mediation Association and MFSA.

Overview of the separate business units

The principle operations of Afdawn are:

- Micro and personnel finance through Elite. (www.elitegroup.co.za)
- Medical aid discounting through Dumont.
- Lending which includes three property transfer funds (“PTFs”), one of which is managed on behalf of a third party.
- Properties in possession acquired as a result of exercising securities held in respect of defaulting loans and includes rental earning properties.