



# ELLERINE *Bros.* (Pty) Ltd

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To all interested parties at creditors meeting on 20 February 2017

Dear Sirs

Re: Stuttafords International Fashion Company (Pty) Ltd (in business rescue) ("SIFCO")

- 1 As you know, Ellerine Bros (Pty) Ltd ("Ellerine") is a minority shareholder in Stuttafords Stores (Pty) Ltd ("Stores") and has not participated in the management of SIFCO in the past. Ellerine feels that SIFCO can benefit from a change in management, as well as a restructuring of the debt and the way in which it does business.
- 2 Ellerine has made substantial investments in SIFCO. It has lent SIFCO an amount of R37 487 000 and would have a preferent claim for that amount on liquidation.
- 3 Ellerine has also given Nedbank, SIFCO's lender, a suretyship that is capped in an amount of R40 million. Ellerine has a deep commitment to ensuring the survival and regeneration of the Stuttafords business.
- 4 Ellerine was not consulted on the business rescue plan before it was submitted to creditors.
- 5 Ellerine has carefully reviewed the plan in the short time available to it since the plan was received and has consulted with PWC in an effort to see whether it could put forward a better plan.



6 Ellerine has highlighted several problems with the existing plan structure.

- The controlling shareholders of Stores will now become the controlling shareholders of SIFCO. The shareholding of management (which was previously at the Stores level) will be shifted into SIFCO and will be increased.
- The effect of the restructuring is that existing management will effectively remain locked-in. It is undesirable to keep the existing management in such a powerful position when the business has to be taken into a new direction in order to survive.
- There is no indication that Nedbank and other major creditors will support the proposed business rescue plan going forward unless there is a change in management and new ideas.

7 Ellerine has considerable experience and exposure in the retail industry. It has identified several potential new managers to run the business. In addition, through its connections, it has had contact with more than one potential buyer with substantial assets to put behind the acquisition.

8 Ellerine wishes to be the sponsor of a business rescue plan that it believes will offer more to creditors than the one that has been proposed by the existing control group of stores. To that end, Ellerine wishes to propose the following:

8.1 Ellerine will sponsor the existing plan subject to the following changes.

8.2 As plan sponsor, Ellerine will contribute an amount of R12 million to the company, as opposed to the R10 350 000 proposed by the current plan sponsors.

8.3 In exchange for that contribution, Ellerine will become a 76% shareholder in SIFCO. The remaining 24% of SIFCO's shares will continue to be held by Stores. Ellerine

will remain a minority shareholder in Stores. This means that the existing controlling shareholders of Stores will retain their controlling interests in Stores. However, Stores will no longer control SIFCO.

- 8.4 All suretyships and guarantees executed in favour of Nedbank or other creditors will remain in place (together with any recourse rights of sureties and guarantors) notwithstanding the adoption of the plan.
- 8.5 Ellerine's obligations under the plan will be conditional upon Nedbank agreeing to the terms and conditions upon which SIFCO's debt is to be restructured and agreeing to forebear on calling up the suretyships unless SIFCO defaults in its obligations to pay Nedbank under the plan or Nedbank is unable to recover its loan in full after 18 months.
- 8.6 Ellerine will obtain a new senior manager experienced in the retail industry within two months.
- 8.7 If Ellerine is able to find a suitable buyer for the business (something it is working on) before the eighteen month period contemplated for performance of the plan expires, Ellerine will attempt to make earlier distributions to creditors. In addition, Ellerine would like time to consider an appropriate "*agterskot*" to creditors based on the selling price of the business if a seller is found. This will be formulated in a more comprehensive plan.
- 8.8 Ellerine also wishes to formulate an "*agterskot*" to creditors if the EBITDA of the business exceeds R25 million in the financial year ended June 2019.
- 8.9 All other provisions of the business rescue plan proposed will remain the same, other than that the sponsor will now be Ellerine and not the Sponsors listed in paragraph 1.3.9.

8.10 Ellerine will undertake to use its best efforts to procure the release of Vestacor's suretyships to Nedbank once Nedbank has been paid in full.

8.11 The plan is also conditional upon Nedbank or some other lender granting SIFCO the R60 million facility needed to operate.

9 We also point out that under the plan Ellerine's entitlement to all distributions on its claim is ceded to Nedbank. This means that all distributions to Ellerine will go directly to Nedbank thereby indirectly benefiting the other creditors.

10 Ellerine recognises that many of SIFCO's creditors are disappointed that they were not consulted more fully before the current business rescue plan was proposed. Ellerine has also not been sufficiently appraised of developments and shares the frustration and disappointment of these creditors. For that reason, Ellerine would like the vote on the plan to be postponed for a short time in order to give Ellerine an opportunity to discuss the plan with the principal creditors, including Nedbank (whose cooperation is crucial for the plan) and other supplier/creditors. Ellerine hopes that a postponement of two weeks will enable Ellerine to satisfy the concerns of creditors, to improve on the terms of supply proposed in the current plan and to tighten up the drafting of an amended plan.

11 Ellerine therefore requests a postponement until 10 March 2017 in order to give Ellerine an opportunity to amend the plan and the creditors meeting the circular to creditors.

Yours faithfully

ELLERINE BROS (PTY) LTD