

ADDITIONAL INFORMATION

(information on the assessment day)

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ATTACHMENT G
NOTES OF KEY DISCUSSIONS / RESOLUTIONS
AT THE BOARD MEETING OF WBP ON 18 NOVEMBER 2014

The following is an extract from the notes taken by the personal assistant to Mr Sutton that will be used to prepare the minutes of the Board meeting held on 18 November 2014:

- The potential investment by Baywatch in WBP was discussed at length. The Board concluded that this is a fair deal and that the shareholders of WBP should consider whether they were prepared to vote in favour of the proposed share subscription. A shareholders' meeting will be convened for 20 November 2014 at which the matter will be considered and, if accepted, Mr Alexander would be given the authority to sign the term sheet.
- On questioning Mr Hawkes on his progress in identifying a successor to Fisher, Goetsch & Hegarty Inc. ('FGH'), he indicated that after interactions with a number of firms, he is most impressed with Arthur Price Loitte & Young ('APLY'). He therefore arranged a follow-up meeting with Mr Emgee, one of the partners in the firm's Durban office, to discuss the firm's appointment as the company's Registered Auditors for FY2015. Mr Hawkes added that during this meeting a number of documents were provided to Mr Emgee to enable him to obtain background information on WBP, including on its directors, shareholders and business operations. These included the annual financial statements of WBP for FY2012 and FY2013, the management accounts for FY2014, and the minutes of the Board meeting held on 17 October 2014.

Mr Emgee has, however, indicated that if APLY were to formally consider accepting WBP as a client, a further meeting with the management of WBP would be required to elicit additional information. Only after that would APLY decide whether to accept the appointment as the Registered Auditor of WBP. The Board tasked Mr Hawkes with the responsibility for arranging such a meeting as a matter of urgency. The Board further resolved that Mr Hawkes inform Mr Emgee that the Board of WBP would like APLY to assign staff to assist FGH with the audit of the 2014 financial statements. This would enable APLY to benefit from the experience of the FGH team in auditing WBP.

- Mr Hawkes apologised for not having prepared a list of improvements to the company's governance structures for the meeting. He mentioned that finding new auditors, the Baywatch deal and preparing for the year-end audit had consumed all his time recently.
- Mr Rice, chair of the Audit and Risk Committee, presented the draft risk register (see attachment 1) for consideration by the Board. The initial feedback was that this register needed a lot more work. For example, the comment was made that it 'seemed to be too generic in nature but that this was perhaps appropriate given the potential Baywatch deal'. It was noted that the draft risk register was given to Baywatch at its request as part of its due diligence procedures. Mr Hawkes suggested that the risk register be updated after the Baywatch deal was concluded.
- The potential acquisition of Oikos was discussed at length. Baywatch had forwarded a model (see attachment 2), prepared by Oikos's professional advisors (The Edge Capital Advisors), regarding the potential sale of the business to WBP and suggested structuring. The Board asked Mr Hawkes to urgently review the valuation of Oikos, and to report back to the Board as soon as possible. Mr Hawkes was not asked to perform

a valuation of Oikos but rather just initially review The Edge Capital Advisors's valuation model.

- Mr Hawkes discussed the possibility that the auditors may insist on the recognition of an impairment of property, plant and equipment. In preparation for these discussions, Mr Hawkes performed his own draft calculations of the possible impairment provision (see attachment 3). Mr Hawkes concluded that based on these workings, there was no need for an impairment provision at this stage. However, he advised that the calculation was still to be finalised and would be forwarded to the Board shortly for formal approval.
- The Board noted the feedback from Mr Hawkes regarding the potential cost of a new particleboard manufacturing plant. The WBP factory manager had travelled to China and Germany to inspect equipment which could be used for particleboard manufacturing. The German plant would cost approximately €10 million. Although similar equipment could be sourced from Chinese suppliers at a cost of US\$7 500 000, the throughput (normal manufacturing capacity) of this plant would be 60% of that of the German machinery.
- The Board noted that a think tank was being planned to brainstorm the issue of business sustainability that WBP is facing. Representatives of Baywatch will be invited to attend, given the questions they raised during previous preliminary discussions.
- With reference to the recommendations on the long-term incentive scheme as discussed at the October Board meeting, the Board recommended that the scheme be implemented subject to the approval of the shareholders. The Board has requested that Mr Hawkes report back regarding the financial reporting and income tax implications of the scheme

Attachment 1
Draft risk register

Risk	Mitigating factors
Competition	
Competitors and new entrants to the market taking a short-term view and dropping prices which could impact on long-term profitability of all participants	Continue to build relationships with customers and provide outstanding service
Succession planning	
The loss of key management would impact on the company's ability to remain focused and profitable in the short term	Executive directors are also shareholders and have entered into long-term service contracts with WBP The proposed long-term incentive scheme will ensure retention of key middle management and align the interests of shareholders and scheme beneficiaries
Reliance on limited number of suppliers	
WBP sources fibre boards from two key suppliers and has limited negotiating power regarding prices	Maintain excellent relationships with key suppliers Find alternate sources of supply with offshore suppliers
Labour unrest	
Strike action by workers could severely disrupt operations Unrealistic wage demands could result in higher operating costs and lower profitability	Engage proactively with unions and avert a strike Engage a labour broker to find temporary staff in the event of a strike
Rising electricity and transport costs	
Eskom's continuous increase of electricity prices as well as rising fuel costs could reduce profitability if WBP is unable to pass on these cost increases	Reduce electricity consumption throughout business and monitor fuel usage Inform customers of the knock-on effects of rising energy prices prior to any increase in selling prices
Catastrophe	
In the event of a fire in the warehouse, WBP's manufacturing operations would be crippled temporarily	WBP has comprehensive insurance cover

Attachment 2
Oikos valuation workings

OIKOS BUILDING SUPPLIES INDICATIVE VALUATION: NOVEMBER 2014				
Year end: September	Audited	Draft	Forecast	Forecast
	2013	2014	2015	2016
	R'000	R'000	R'000	R'000
<i>History and forecasts</i>				
Revenue	183 640	192 800	221 745	255 000
Earnings before interest, tax, depreciation and amortisation (EBITDA)	11 830	10 590	14 400	17 850
Depreciation	(1 550)	(1 770)	(1 820)	(1 850)
EBIT	10 280	8 820	12 580	16 000
Net finance costs	(800)	(628)	(438)	(229)
Profit before tax	9 480	8 192	12 142	15 771
Taxation	(2 702)	(2 335)	(3 460)	(4 495)
Profit after tax	6 778	5 857	8 682	11 276
EBITDA	11 830	10 590	14 400	17 850
Taxation paid	(2 567)	(2 218)	(3 287)	(4 270)
Net finance costs	(800)	(628)	(438)	(229)
Net movement in working capital	(3 560)	(3 738)	(4 112)	(4 523)
Capital expenditure	(1 700)	(1 800)	(1 800)	(1 800)
Debt repayments	(1 724)	(1 896)	(2 085)	(2 295)
Dividends	(1 500)	0	(2 500)	(4 000)
Net movement in cash	(21)	310	178	733
Opening cash balance	610	589	899	1 077
Closing cash balance	589	899	1 077	1 810
Net movement in cash			178	733
Add back				
Net finance costs			438	229
Debt repayments			2 085	2 295
Dividends			2 500	4 000
Free cash flow			5 201	7 257

Free cash flow workings				
Risk-free rate (three-month treasury bill)	6,0%			
Market risk premium	7,0%			
Beta coefficients	0,42	<i>Unlevered</i>	<i>Levered</i>	
Cashbuild Ltd		0,09	0,09	
Illiad Ltd		1,03	1,03	
Kaydav Ltd		0,45	0,15	
Average		0,52	0,42	
Cost of equity	8,94%			
<i>Levered betas as Oikos has gearing</i>				
		2014	2015	2016
	R'000			
Present value of free cash flows 2015 and 2016	10 889			
Growth in perpetuity after 2016				2,0%
Present value of terminal value	82 497			
Enterprise value	93 386			
Less: Debt	(4 380)			
Equity value	89 006			
Less: 25% discount (<i>because they are related parties</i>)	(22 251)			
Fair value for 100% of Oikos	66 755			

Reasonability checks		
	R'000	R'000
Stated capital and reserves of Oikos at 9/2014	43 100	
Revaluation of property per independent expert	12 000	
Adjusted net asset value (NAV)	55 100	
Fair value/NAV	121%	
Premium to NAV therefore	21%	
Implied earnings multiples		
Profit after tax 2014	5 857	
Profit after tax 2015		8 682
PE multiples (fair value/profit after tax)		
2014	11,4	
2015		7,7
PE multiples of similar listed companies		
Cashbuild Ltd	13,8	
Illiad Ltd	50,2	
Kaydav Ltd	12,4	
Average	25,5	

The implied PE multiple of Oikos is 45% of the average PE multiple of similar listed companies, therefore it is reasonable

Recommendation

In our opinion, the fair value of 100% of Oikos at 30 September 2014 is R67 million.

The sale of 100% of Oikos to WBP is to be settled as follows:

	R'000
Cash payment to management (40%)	26 800
Issue of shares by WBP to Baywatch (60%)	40 200
	67 000

The Edge Capital Advisors

*Johannesburg
17 November 2014*

Attachment 3

Workings relating to possible impairment of property, plant and equipment

WBP (Pty) Ltd											
	31 Oct '15	31 Oct '16	31 Oct '17	31 Oct '18	31 Oct '19	31 Oct '20	31 Oct '21	31 Oct '22	31 Oct '23	31 Oct '24	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	
Growth % based on long-term turnaround strategy	3%	3%	3.5%	4%	4%	5%	5%	5%	5%	5%	
Expected cash inflow from sales	193 242	199 039	206 006	214 246	222 816	233 956	245 654	257 937	270 834	284 376	
Expected cash outflow from operations	-176 931	-182 239	-187 706	-195 214	-203 023	-211 144	-221 701	-232 786	-244 425	-256 647	
Expected finance costs	-2 801	-2 699	-2 429	-2 186	-1 968	-1 771	-1 594	-1 434	-1 291	-1 162	
	13 510	14 101	15 870	16 845	17 825	21 042	22 360	23 717	25 118	26 567	
Tax at 28%	-3 783	-3 948	-4 444	-4 717	-4 991	-5 892	-6 261	-6 641	-7 033	-7 439	
Cash profit	9 727	10 153	11 427	12 129	12 834	15 150	16 099	17 076	18 085	19 128	
Discount rate:	5.76%										
SA prime interest rate less 1% (market-related)	8.00%										
Less tax saving	-2.24%										
NPV of the above =	R 101 793										
Fair value less expected selling costs (estimate)	R 86 157										
Higher of the two =	R 101 793										
Compare with: current book value	R 97 050										
Therefore no impairment											

ATTACHMENT H

E-MAIL FROM HAWKES TO THE NEW FINANCIAL ACCOUNTANT

From: Stan Hawkes
To: The Financial Accountant of WBP
CC:
Subject: FWD: Impairment of PPE

Tuesday 18/11/2014 4.35pm

Hi

I need your help with two issues regarding impairment, please:

As you are aware, we had a Board meeting today. The potential impairment provision of property, plant and equipment was discussed and I presented draft workings on this to the Board. However, I was rushing to get it done last night in preparation for the meeting; please scrutinise my workings carefully and provide me with comments so that I can finalise the calculation as soon as possible.

Also, see the e-mail below that I have just received from Frik. Please draft a response to him on my behalf, as I simply don't have time to do so at the moment. In your e-mail to him, explain in layman's terms (as you know, his background is not in accounting) the reasons for the possible impairment and how the calculation is done.

Thanks in advance for your help. You are fitting in really well at WBP and I see a bright future for you.

Cheers

Stan

From: Frik Alexander
Sent: Tuesday 18 November 2014 4.19pm
To: Stan Hawkes
CC:
Subject: Impairment of PPE

Dear Stan

That was a strange presentation on impairment this morning! I'm afraid I'm still a bit lost with all this IFRS jargon. Would you be so kind to explain the reason for the impairment and the logic behind the calculation?

We don't need an impairment at this stage given what's happening with Baywatch so it's great that your preliminary workings indicated this is not necessary (hopefully you will have final workings very soon?).

Hope to hear from you soon. Thanks in advance.

Regards

Frik

ATTACHMENT I

E-MAIL FROM VALUATION EXCELLENCE TO HAWKES

From: Magnus Uber To: Stan Hawkes CC: Subject: Long-term incentive scheme	Tuesday 18/11/2014 6.43pm
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Dear Stan

I do apologise for not responding earlier, but I needed to present a seminar to a client at short notice yesterday.

As requested, I have reviewed the terms and conditions of the proposed long-term incentive scheme. My view is that this proposed arrangement is in substance a share option scheme. However, you would need to confirm this with your financial reporting experts.

I have used the Black-Scholes simulation to estimate the value of the options. The preliminary valuation results indicate an aggregate option value of R4 200 000 at November 2014 for the 10% shareholding to be sold to the scheme beneficiaries. I will forward the detailed valuation model and my report to you in due course.

I look forward to discussing the result of the option valuation in further detail when we meet.

Please do not hesitate to contact me if you require any further information.

Yours sincerely

Magnus

Director: Valuation Excellence

ATTACHMENT J

ANONYMOUS LETTER RECEIVED FROM DISGRUNTLED EMPLOYEES

The Human Resources Manager
WBP (Pty) Ltd

18 November 2014

By hand

Dear Ms Moonsamy

Proposed long-term incentive scheme

A number of us employees of WBP, who wish to remain anonymous, have become aware of the proposed long-term incentive scheme that WBP intends to implement. Our sources indicate that WBP intends to advance interest-free loans to directors and a select few middle managers of the company to purchase shares in the company. It is also rumoured that these loans will not have any fixed repayment dates! Ms Moonsamy, we find this to be completely unfair, unethical and inflammatory.

WBP seems to ignore the efforts of the vast majority of workers and handsomely rewards a select few. Your proposed long-term incentive scheme will marginalise your staff and cause serious discontent amongst employees. How can WBP possibly introduce a scheme which will have no risk for a few employees and ignore the rest of us? The proposed scheme is contrary to the spirit of transformation, transparency and empowerment. It smacks of exactly the sort of capitalism that the new South Africa has been trying to rectify! All you do is pay lip service to the values you have on your corporate posters and corporate documents. 'Transparency in all we do' – not a chance! The glue you use in your factory is as transparent as you will get! 'Fairness and equity' – this scheme is proof that it means nothing to you!

You are discriminating against the rest of the hard-working employees of WBP and the proposed scheme is further proof that there is nothing fair and definitely not equal in the way you are treating your staff. It is unethical to single out directors and a small number of managers, offer them shares and actually provide them with the money to pay for the shares, and also totally in conflict with your supposed beliefs.

We keep hearing from WBP that profits are declining and that cash flows are tight. How on earth can WBP now afford to lend money to executives and managers when it has money problems? It sounds as if you guys have never heard of corporate governance and company law! It would not surprise us if WBP encounters prolonged strike action when the next round of wage negotiations comes around. WBP should rather use this money to be given to the select few to improve the lot of the rest of the workers. Some salary increases and additional benefits such as housing and cellphone allowances would buy you tremendous loyalty and dedication.

We are not ignorant of these types of long-term incentive schemes. Generally, the elites (like the company directors and Remuneration Committee members) talk about aligning the interests of key management and shareholders. We think company directors have lost the plot! Treat all employees fairly and with dignity and they will respond in kind. Making a few people rich, hiding behind concepts taught at business schools such as 'alignment of interests', is a cop out and short sighted.

We thought we would share our displeasure about the proposed scheme. It may be in your best interests to hear about this now rather than have to deal with the ramifications later.

Yours sincerely
Some disgruntled employees

ATTACHMENT K

FGH'S AUDIT WORKPAPERS

Client: WBP (Pty) Ltd
Year end: 31/10/2014
Subject: Audit of Provisions

Prepared by: A Junior
Date: 14/12/2014
Reviewed by:
Date:

Objective
The purpose of this workpaper is to document the planning for, and performance of, the audit of the 'provisions' line item in the statement of financial position at 31 October 2014, as well as the audit evidence gathered as a result.

Planning
As materiality for the audit of the financial statements has been set at R2 million, the account balance for provisions at year end is not particularly material. For this reason, there is no need to consider the system of internal control in respect of the accounting for provisions. Accordingly, a fully substantive approach was adopted to audit the provision account balance - and is documented in this workpaper.

Lead schedule

The provisions line item at 31 October 2014 comprised solely rebates due to customers.

Acc #	Description	Amount
6000/24765	PROV REBATE - LOCA 1	R 864 954.00
6000/24766	PROV REBATE - LOCA 2	R 456 999.00
6000/24767	PROV REBATE - LOCA 3	R 531 976.00
		<u>R 1 853 929.00 {b} {c}</u>

Per Mr Hawkes, the balances are the result of the following entries:

- 1) For qualifying customers, the agreed-upon rebate percentage applied to the sales invoice amount is credited to the provisions account at the date of the sale.
- 2) When the rebate is paid to the customer, it is debited to the provision for rebates account on the date of payment.

Summary of rebate terms granted to customers

- 1) WBP has agreements with certain customers whereby WBP will grant rebates to them based on their quarterly purchases from WBP.
- 2) The rebates are only payable if minimum purchase volumes are achieved and the customer's account is fully up to date.
- 3) Quarterly purchase volume targets are based on the following time periods: Q1 = Jan-Mar; Q2 = Apr-Jun; Q3 = Jul-Sep; Q4 = Oct-Dec.
- 4) Rebates are payable within 60 days after the end of each quarter.

Tickmarks

{b} Agreed to trial balance and draft financial statements.
{c} Reperformed casting of total of account balances.

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40 **Client:** WBP (Pty) Ltd **Prepared by:** A Junior **W123**

41 **Year end:** 31/10/2014 **Date:** 14/12/2014 **2/2**

42 **Subject:** Audit of provisions **Reviewed by:**

43 **Date:**

45 Sample determination: Select, on a random basis, 10 individual rebate provision entries credited to the PROV REBATES general ledger accounts during the 2014 financial year.

#	Date of sale {d}	Customer	Recorded rebate amount per G/L	Auditor recalculation				Audit tests									
				Rebate %		Invoice amount (excl. VAT)	Recalculated rebate	Diff	Contract inspected		Sales volume achieved?	Customer account up to date?	Rebate paid after year end?				
1	14 Oct 2014	MICA KITCHEN MC30023	R 15 674.00	5.75%	{e}	R 272 591.30	{f}	R 15 674.00	R -		✓	{g}	✓	{h}	✓	{i}	✗
2	23 Sep 2014	BUILD W/HOUSE BW30006	R 32 687.00	4.00%	{e}	R 817 175.00	{f}	R 32 687.00	R -		✓	{g}	✓	{h}	✓	{i}	✓ {j}
3	21 Sep 2014	PMB CUPBOARDS PM30011	R 13 987.00	4.25%	{e}	R 350 105.88	{f}	R 14 879.50	R -892.50	{a}	✓	{g}	✓	{h}	✓	{i}	✗
4	02 Oct 2014	RAND TIMBER RT30017	R 23 875.00	4.75%	{e}	R 502 631.58	{f}	R 23 875.00	R -		✓	{g}	✓	{h}	✓	{i}	✗
5	23 Aug 2014	RAND TIMBER RT30018	R 12 999.00	4.75%	{e}	R 273 663.16	{f}	R 12 999.00	R -		✓	{g}	✓	{h}	✓	{i}	✓ {j}
6	27 May 2014	MICA KITCHEN MC30026	R 41 789.00	5.75%	{e}	R 726 765.22	{f}	R 41 789.00	R -		✓	{g}	✓	{h}	✓	{i}	✗
7	14 Aug 2014	HOUSE & GARDEN HG30004	R 25 000.00	5.00%	{e}	R 500 000.00	{f}	R 25 000.00	R -		✓	{g}	✓	{h}	✓	{i}	✗
8	07 Oct 2014	BUILD XPRESS BX30034	R 9 876.00	5.25%	{e}	R 188 114.29	{f}	R 9 876.00	R -		✓	{g}	✓	{h}	✓	{i}	✗
9	12 Sep 2014	BUILD W/HOUSE BW30006	R 4 863.00	5.00%	{e}	R 97 260.00	{f}	R 4 863.00	R -		✓	{g}	✓	{h}	✓	{i}	✓ {j}
10	17 Sep 2014	MIDLANDS RETAIL MR30001	R 32 904.00	5.50%	{e}	R 598 254.55	{f}	R 32 904.00	R -		✓	{g}	✓	{h}	✓	{i}	✓ {j}
			R 213 654.00														

60 Tickmarks

62 {a} Accept difference as immaterial.

63 {d} The rebate payable is recorded in the general ledger (G/L) on the same day that the sale took place.

64 {e} Inspected customer agreement for the rebate %.

65 {f} Inspected the relevant sales invoice for the sales amount (excluding VAT).

66 {g} Inspected the agreement with the customer and verified terms and conditions regarding rebates, and that the agreement is signed by both parties.

67 {h} Through enquiry from management, verified that customer has always in the past achieved the quarterly sales volume target to be entitled to a rebate.

68 {i} Through inspection of the accounts receivable age analysis at the end of the applicable quarter, verified that the customer account is not in arrears.

69 {j} Rebate was paid to customer after year-end; verified by inspection of bank statement and supporting remittance advice (which included this amount).

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Sheet1 Sheet2 Sheet3