

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

### Action required

1. If you are in any doubt as to the action you should take, please consult your broker, banker, legal adviser, accountant or other professional adviser immediately.
2. If you have disposed of your claims against MGX, then this document should be handed to the purchaser to whom, or the broker through whom, you disposed of your claims.
3. If you are unable to attend the scheme meeting to be held at 10:00, on Monday, 19 January 2004, and wish to be represented thereat please complete and return the attached form of proxy (*blue*) in accordance with the instructions contained therein, to the chairperson of the scheme meeting, Mervyn Taback, c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, so as to be received by no later than 10:00 on Thursday, 15 January 2004.
4. If a form of proxy for the scheme meeting is not received by the time set out above, it may nevertheless be handed to the chairperson of the scheme meeting up to no later than 10 minutes before the commencement of the scheme meeting.
5. If you wish to anticipate implementation of the scheme and expedite receipt of your scheme consideration, you should complete the attached claim form (*pink*) and return same, together with the proof of scheme claims, to the address given in the form.
6. All scheme creditors are entitled to attend the Court hearing for the sanction of the scheme at 10:00 or as soon thereafter as Counsel may be heard on Tuesday, 27 January 2004, in the High Court of South Africa (Witwatersrand Local Division), which is located in the High Court Building, von Brandis Square, corner Pritchard and von Brandis Streets, Johannesburg.



## MGX HOLDINGS LIMITED

Incorporated in the Republic of South Africa  
(Registration number 1983/012697/06)  
Share code: MGX  
("MGX" or "the company")

## SCHEME OF ARRANGEMENT

This document relates to a scheme of arrangement in terms of section 311 of the Companies Act, proposed by MGX, between MGX and and certain of its creditors;

and incorporates

- the Order convening the scheme meeting;
- a notice of the scheme meeting;
- the scheme;
- an explanatory statement in terms of section 312(1) of the Companies Act;
- form of proxy for the scheme meeting; and
- a claim form for scheme creditors.

This document is important and is being sent to all known scheme creditors of MGX in accordance with an Order of Court and the provisions of the Companies Act. Your rights as a creditor of MGX will be affected in the manner outlined herein and you are entitled to be present or represented, and vote, at the meeting of scheme creditors to which reference is made in this document.

The directors, collectively and individually, accept full responsibility for the accuracy of the information given in this circular and certify that, to the best of their knowledge and belief, there are no facts, the omission of which would make any statement in this circular false or misleading and that they have made all reasonable enquiries to ascertain such facts and, if applicable, this circular contains all information required by law.

Standard Corporate and Merchant Bank is acting for MGX and no one else in relation to the preparation of this circular and will not be responsible to anyone, other than MGX, in relation to the preparation of this circular.

### Merchant bank



Standard Corporate  
and Merchant Bank

(A division of The Standard Bank  
of South Africa Limited)  
(Registration number 1962/000738/06)

### Debt adviser



CREDIT MANAGEMENT SOLUTIONS (PTY) LTD

### Auditors



Deloitte & Touche Chartered Accountants (SA)  
Registered Accountants and Auditors

Deloitte

### Attorneys



WEBBER WENTZEL BOWENS

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## **CORPORATE INFORMATION**

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### **Registered address and company secretary**

Charl du Plessis  
22 Milkyway Avenue  
Linbro Business Park  
Linbro Park  
Sandton, 2146  
(PO Box 1697, Bramley, 2018)

### **Merchant bank**

Standard Corporate and Merchant Bank  
(A division of The Standard Bank  
of South Africa Limited)  
5th Floor  
3 Simmonds Street  
Johannesburg, 2001  
(PO Box 61344, Marshalltown, 2107)

### **Auditors**

Deloitte & Touche  
Chartered Accountants (SA)  
The Woodlands  
Woodlands Drive  
Woodmead, Sandton, 2146  
(Private Bag X6, Gallo Manor, Sandton, 2052)

### **Debt adviser**

Credit Management Solutions (Proprietary) Limited  
9th Floor  
Rennie House  
19 Ameshoff Street  
Braamfontein, 2001  
(Private Bag X6, Norwood, 2117)

### **Attorneys**

Webber Wentzel Bowens  
10 Fricker Road  
Illovo Boulevard  
Johannesburg, 2196  
(PO Box 6177, Marshalltown, 2107)

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## INTERPRETATIONS AND DEFINITIONS

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In this document and the Annexures hereto, save for the scheme and the Annexures thereto, unless the context indicates otherwise:

- reference to the singular shall include the plural and *vice versa*;
- words denoting one gender include the other;
- expressions denoting natural persons include juristic persons and associations of persons; and
- the words in the first column have the meanings stated opposite them in the second column, as follows:

“BCS”	MGX Business Continuity Solutions (Proprietary) Limited (Registration number 1998/002943/07), a private company incorporated in South Africa;
“BCS Cape”	MGX Business Continuity Solutions (Cape) (Proprietary) Limited (Registration number 1999/012840/07), a private company incorporated in South Africa and a subsidiary of BCS;
“the board”	the board of directors of MGX at the last practicable date;
“business day”	any day other than a Saturday, Sunday, or official public holiday in South Africa;
“the chairperson” or “the chairperson of the scheme meeting”	Mervyn Taback, or failing him, Rupert Smith, or failing both of them, any other independent person agreed to by the Court to act as the chairperson of the scheme meeting;
“this circular” or “the circular” or “this document”	this circular, dated 17 December 2003, containing this schedule of interpretations and definitions and including the scheme, the explanatory statement, Annexures, the form of proxy and a claim form for scheme creditors;
“claim”	any claim of whatsoever nature and description and howsoever arising, including claims, both actual and contingent, conditional and unconditional, liquidated and unliquidated, assessed or unassessed, or otherwise, and whether due for payment, performance, delivery or action or thereafter to become so due and including any claim arising out of, but not limited to, any contracts concluded, or delicts committed;
“the Code”	the Securities Regulation Code and Rules of the Securities Regulation Panel made in terms of sections 440C(1), (3) and (4) of the Companies Act;
“Common Terms Agreement”	the Common Terms Agreement entered into on Thursday, 20 November 2003, between the secured creditors, Main Street, MGX, Micawber 305 (Proprietary) Limited and a number of guarantors, as set out in that agreement;
“the Companies Act”	the Companies Act, 1973 (Act 61 of 1973), as amended;
“the conditions precedent”	the conditions precedent to which the scheme is subject, set out in Chapter 3 of the scheme;
“the Court”	the High Court of South Africa (Witwatersrand Local Division), which is located in the High Court Building, von Brandis Square, corner Pritchard and von Brandis Streets, Johannesburg;
“the debt refinancing” or “financial restructuring”	the refinancing of the debts owed by MGX to the secured creditors pursuant to the Common Terms Agreement;
“Didata UK”	Didata (United Kingdom) Limited (Registration number 3147167), a private company incorporated in the United Kingdom;

“Dion Business Systems”	Dion Business Systems (Proprietary) Limited (Registration number 1970/004142/07), a private company incorporated in South Africa;
“the directors”	the directors of MGX, the names of whom appear on page 35 of this circular;
“Drive Control”	Drive Control Holdings (Proprietary) Limited (Registration number 1995/006718/07), a private company incorporated in South Africa;
“ECH”	EC-Hold Limited (Registration number 1998/020093/06), a public company incorporated in South Africa, all of the issued ordinary shares of which are listed on the JSE;
“the ECH creditor scheme”	the scheme of arrangement proposed by MGX between MGX and the ECH creditors, in terms of section 311 of the Companies Act on or about the same date as which MGX proposes the scheme;
“ECH creditors”	all persons having claims against MGX pursuant to the mandatory offer;
“ECH shares”	ordinary shares with a par value of R0.01 each in the issued share capital of ECH;
“enTechnologies”	enTechnologies Corporation (USA) (Registration number 81005), a corporation established in the United States of America;
“Enterprise Solutions”	MGX Enterprise Solutions (Proprietary) Limited (Registration number 1996/013834/07), a private company incorporated in South Africa;
“the explanatory statement”	the explanatory statement as required by section 312 of the Companies Act, for purposes of the scheme, coloured yellow and contained in this circular;
“Faerie Glen”	MGX Properties Faerie Glen (Proprietary) Limited (Registration number 1997/008053/07), a private company incorporated in South Africa;
“the final date”	the date on which MGX announces on SENS that the conditions precedent have been fulfilled, being the date on which the scheme will become unconditional and binding, which final date is expected to be Thursday, 29 January 2004;
“the Guarantor”	the guarantor as defined in the Common Terms Agreement;
“the Insolvency Act”	the Insolvency Act, 1936 (Act 24 of 1936), as amended;
“JSE”	JSE Securities Exchange South Africa;
“last practicable date”	10 December 2003, being the last practicable date prior to the finalisation of this document;
“Main Street”	Main Street 152 (Proprietary) Limited (Registration number 2003/016054/07), a private company incorporated in South Africa and which is a wholly-owned subsidiary of MGX;
“mandatory offer”	any offer which MGX makes for the purchase of ECH shares, to shareholders of ECH at a date agreed to between MGX and the SRP, or alternatively as finally ruled by the SRP or any competent court (excluding MGX and its concert parties (as determined by the SRP), Cycad Financial Holdings Limited and any nominees holding ECH shares on any such party’s behalf) which offer is made in terms of Rule 8.1 of the Code and arises out of the acquisition by MGX and the said concert parties of ECH shares, on or about 8 October 1999;
“the meeting record date”	means 17:00 two business days immediately preceding the day of the scheme meeting, which is expected to be Thursday, 15 January 2004;
“Metrofile”	Metrofile (Proprietary) Limited (Registration number 1996/008024/07), a private company incorporated in South Africa;

“the Metrofile Division”	the direct or indirect subsidiaries of MGX involved in the document and records management division, comprising Metrofile, MGX Customer Services (Proprietary) Limited, MGX Outsourcing, Mail Processing Systems (Proprietary) Limited, Document and Data Management (Africa) (Proprietary) Limited, Metrofile (Natal) (Proprietary) Limited, Metrofile (Cape) (Proprietary) Limited, The Paper Bank Marketing Company (Proprietary) Limited and Stuttaford Archive Services (Proprietary) Limited;
“the Metrofile A facility”	the credit facility granted and made available to Main Street of approximately R106 million in interest-bearing senior term debt;
“the Metrofile B facility”	the redeemable convertible interest-bearing loans granted and made available to Main Street of approximately R112 million;
“the Metrofile B1 facility”	the redeemable convertible interest-bearing loans granted and made available to Main Street for approximately R20 million;
“the Metrofile C facility”	the redeemable convertible interest-bearing loans granted and made available to Main Street of approximately R77 million;
“the Metrofile facilities”	collectively, the Metrofile A facility, the Metrofile B facility, the Metrofile B1 facility, the Metrofile C facility and the Working Capital facility;
“MGX” or “the company”	MGX Holdings Limited (Registration number 1983/012697/06), a public company incorporated in South Africa, all of the issued ordinary shares of which are listed on the JSE;
“the MGX B facility”	the redeemable convertible interest-bearing loans of R20 million into which certain secured non-trade creditors of MGX will convert their debt as set out in the Common Terms Agreement;
“the MGX Capital Providers” or “the secured creditors”	Citibank, N.A., South African Branch, Investec Bank Limited, Nedbank Limited, Momentum Group Limited, Standard Corporate and Merchant Bank (a division of The Standard Bank of South Africa Limited), Capital Africa Limited, South African Private Equity Trust III, Drive Control Services (Proprietary) Limited and Eurevest Leasing (Proprietary) Limited, up to the amounts of their claims against MGX which are validly secured as agreed between such parties and MGX pursuant to the Common Terms Agreement;
“the MGX Group”	the group of companies comprising MGX and its subsidiaries;
“MGX Outsourcing”	MGX Outsourcing (Proprietary) Limited (Registration number 1986/003229/07), a private company incorporated in South Africa;
“MGX Property”	MGX Property (Proprietary) Limited (Registration number 1999/006664/07), a private company incorporated in South Africa;
“MGX shares”	MGX ordinary shares with a par value of 0.6146 cent each in the issued share capital of MGX;
“nacq”	nominal annual compounded quarterly;
“NAV”	net asset value;
“notes”	the secured interest-bearing redeemable convertible loan notes to be issued by MGX to the scheme creditors pursuant to the scheme, in satisfaction of their claims, having the terms and conditions set out in Annex “A” to the scheme;
“the Order”	the Order of Court relating to the scheme, set out in Annexure 2 to this circular;

“the prime rate”	the publicly quoted basic rate of interest per annum, compounded monthly in arrear and calculated on a 365-day year (irrespective of whether or not the year is a leap year), from time to time published by The Standard Bank of South Africa Limited as being its prime overdraft rate, as certified by any manager of such bank, whose appointment and designation need not be proved;
“Professional Services”	MGX Storage Solutions Professional Services (Proprietary) Limited (Registration number 1996/009501/07), a private company incorporated in South Africa;
“the Receiver”	the Receiver referred to in clause 13 of the scheme, having the rights and obligations set out in Chapter 7 of the scheme;
“redemption date”	any date on which notes are redeemed pursuant to the scheme;
“the Registrar”	the Registrar of Companies in South Africa;
“the scheme”	the scheme of arrangement proposed by MGX between MGX and the scheme creditors, in terms of section 311 of the Companies Act, on the terms and conditions set out in this document;
“the scheme consideration”	the notes in an amount for each scheme creditor equal to the face value of that scheme creditors’ claim against MGX as determined in accordance with the provisions of Chapter 6 of the scheme and rounded up to the nearest R1.00;
“the scheme creditors”	all creditors having claims against MGX determined at the meeting record date for the purposes of the scheme meeting and, where appropriate, determined at the final date for the purposes of the scheme when it becomes operative, other than the secured creditors and the ECH creditors;
“the scheme meeting”	means the meeting (or any adjournment thereof) of the scheme creditors convened in terms of section 311 of the Companies Act, at which scheme meeting the scheme creditors will consider and vote on the scheme. The scheme meeting will be held at 10:00 at 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, on Monday, 19 January 2004;
“SENS”	the Securities Exchange News Services of the JSE;
“Software Futures”	MGX Software Futures (Proprietary) Limited (Registration number 1999/027613/07), a private company incorporated in South Africa;
“South Africa”	the Republic of South Africa;
“Storage Solutions”	MGX Storage Solutions (Proprietary) Limited (Registration number 1996/007500/07), a private company incorporated in South Africa;
“TNAV”	tangible NAV; and
“the Working Capital facility”	the short-term interest-bearing working capital facility of R10 million granted and made available to Main Street by the MGX Capital Providers.

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## LETTER TO THE SCHEME CREDITORS

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Dear Sirs

### **SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND THE SCHEME CREDITORS IN TERMS OF SECTION 311 OF THE COMPANIES ACT WHICH HAS BEEN PROPOSED BY MGX**

1. The scheme has been proposed by MGX, between the company and its creditors, other than the secured creditors and the ECH creditors, in terms of section 311 of the Companies Act. The scheme was submitted to the Court in terms of the application for the Order. The purpose of the scheme meeting is to consider the scheme and, if thought fit, of accepting the same with or without modification. The Order was duly granted on Friday, 12 December 2003. In terms of the Order, I, Mervyn Taback, was appointed as chairperson of the scheme meeting with authority to adjourn the same from time to time should such adjournment prove necessary.
2. In compliance with the Order, I enclose the following documents:
  - 2.1 a notice convening the scheme meeting showing the date, time and place of the said meeting;
  - 2.2 a copy of an explanatory statement as envisaged in and required by sections 312(1) and (2) of the Companies Act commencing on page 31 of this circular (*yellow*);
  - 2.3 a copy of the scheme set out in this circular;
  - 2.4 a copy of the Order, set out in Annexure 2 to this circular;
  - 2.5 a copy of the form of proxy (*blue*);
  - 2.6 a list of scheme creditors known to MGX, at the last practicable date, reflecting in each case the amount for which each scheme creditor will be regarded as a creditor for the purposes of voting at the scheme meeting, set out in Annexure 3 to this circular; and
  - 2.7 a claim form for scheme creditors (*pink*).
3. Should you wish to vote at the scheme meeting by proxy you should tender as your proxy the form of proxy (*blue*) appended hereto and cause it to be filed with the chairperson in any of the following manner:
  - 3.1 by hand, c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, by no later than 10:00 on Thursday, 15 January 2004; or
  - 3.2 by post, c/o Charl du Plessis, PO Box 1697, Bramley, 2018, to be received by no later than 10:00 on Thursday, 15 January 2004; or
  - 3.3 by facsimile, c/o Charl du Plessis, facsimile number 011 458 6615, by no later than 10:00 on Thursday, 15 January 2004; or
  - 3.4 by handing the form of proxy to the chairperson no later than 10 minutes before the time for commencement of the scheme meeting.

4. A report to the Court on the outcome of the scheme meeting will be available for inspection during normal business hours at c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton for at least one week prior to the date fixed by the Court for the chairperson to report back to it, namely Tuesday, 27 January 2004.

**Mervyn Taback**

*Chairperson*

17 December 2003

**NB: THE ATTENTION OF THE SCHEME CREDITORS IS SPECIFICALLY DRAWN TO THE PROVISIONS OF CLAUSES 8 TO 12 OF THE SCHEME, MORE PARTICULARLY TO THE CONTENTS OF 12.1 THEREOF, AND SCHEME CREDITORS ARE REQUESTED TO CAREFULLY PERUSE THE SAME. IT READS AS FOLLOWS:**

**“12.1 Scheme creditors, other than scheme creditors who accept that they are creditors for the amounts reflected in the books of account and records of MGX (as advised by the Receiver), who are not notified by the Receiver that he rejects such claim, who have received proper notice of the:**

**12.1.1 submission of the scheme;**

**12.1.2 terms of the scheme;**

**12.1.3 scheme meeting; and**

**12.1.4 sanction of the scheme by the Court,**

**and who have, together with notification of the sanction, had their attention specifically directed to the contents of this clause 12 and who failed to submit their claims within the relevant period stipulated in clause 10 shall be deemed to have abandoned their claims against MGX, free of consideration.”**

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## NOTICE CONVENING THE SCHEME MEETING FOR CREDITORS OF MGX

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IN THE HIGH COURT OF SOUTH AFRICA  
(WITWATERSRAND LOCAL DIVISION)

Case number: 03/15482

In the *ex parte* application of:

**MGX HOLDINGS LIMITED**

(Registration number 1983/012697/06)

**Applicant**

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### NOTICE OF FIRST CREDITOR SCHEME MEETING

Notice is hereby given in terms of an Order of Court dated Friday, 12 December 2003 in the above matter that the High Court of South Africa (Witwatersrand Local Division) has ordered that a meeting ("**scheme meeting**") in terms of section 311 of the Companies Act, 1973 (Act 61 of 1973), as amended ("**the Companies Act**"), of the creditors of MGX Holdings Limited ("**MGX**"), other than the secured creditors of MGX and those persons having claims against MGX pursuant to any mandatory offer which MGX may make for the purchase of shares in EC-Hold Limited ("**ECH**") pursuant to Rule 8.1 of the Securities Regulation Code and Rules of the Securities Regulation Panel, ("**scheme creditors**"), be held at 10:00 on Monday, 19 January 2004 (or any adjournment thereof), at MGX's registered office, being 22 Milkyway Avenue, Linbro Office Park, Linbro Park, under the chairmanship of Mr Mervyn Taback, or failing him, Mr Rupert Smith, or failing both of them, any other independent person agreed to by the above Honourable Court ("**the chairperson**"), for the purpose of considering and, if deemed fit, approving, with or without modification, the scheme of arrangement proposed by MGX between itself and the scheme creditors ("**the scheme**"), which scheme will be submitted to such meeting, provided that the scheme meeting will not be entitled to agree to any modification to the said scheme without the prior consent of MGX.

**The basic characteristic of the scheme is that, subject to the fulfilment of certain conditions precedent which are stated in clause 3 of the scheme, scheme creditors will be deemed to have agreed to accept secured interest-bearing redeemable convertible loan notes to be issued by MGX in an amount equal to the face value of each such scheme creditor's claim against MGX, rounded up to the nearest R1.00, in full and final settlement of all claims which they have against MGX. The terms of the notes are set out in Annex "A" to the scheme, which will be sent to scheme creditors and are available for inspection by scheme creditors as set out below.**

Scheme creditors who are present and represented at the scheme meeting and who are reflected in the books of account and records of MGX as creditors shall be regarded by the chairperson as scheme creditors entitled to attend and vote at such scheme meeting in respect of the amounts for which they so appear in the books of account and records of MGX to be creditors at the close of business on Thursday, 15 January 2004 (or two business days prior to any adjourned meeting) provided that any creditor with a claim falling due for payment after the final date of the scheme shall be regarded by the chairperson as a scheme creditor for an amount equal to the face value of its claim, less 10% per annum of that face value, reckoned from the date on which the scheme meeting is being held, to the due date for payment of such claim. Any scheme creditor who is not reflected in the books of account and records of MGX as a creditor, or claims to be a creditor for an amount different to that reflected in the books of account and records of MGX and who wishes to vote at the scheme meeting, shall be entitled, at any time prior to 17:00 two business days immediately preceding the scheme meeting, to prove such claim to the chairperson in accordance with the provisions of the scheme. The chairperson may reject or accept such creditor as a scheme creditor in the chairperson's sole and absolute discretion and the chairperson's determination in this regard will be final and binding upon such creditor and the creditor's right to vote at the scheme meeting.

Copies of the scheme and explanatory statement in terms of section 312 of the Companies Act explaining the scheme, a copy of the Order of Court convening the scheme meeting and a list of all scheme creditors known to MGX reflecting where appropriate the amount for which each creditor is being regarded as a scheme creditor, this notice and the approved form of proxy, will be sent to all scheme creditors on or

about 17 December 2003 **and are included in the document to which this notice forms part\*** and may be inspected and obtained on request from MGX (c/o Charl du Plessis) at its registered office, being 22 Milkyway Avenue, Linbro Office Park, Linbro Park, during normal business hours from Monday, 17 December 2003.

Each scheme creditor may attend and vote in person or by representative at the scheme meeting and may appoint any other person (who need not be a creditor of MGX) as a proxy to attend, speak and vote in such scheme creditor's place. The required form of proxy (*blue*) will be sent to known scheme creditors **and accompanies this notice\*** and may be obtained on request from MGX's registered office, c/o Charl du Plessis, at the address and at the times stated above.

Any scheme creditor wishing to appoint a proxy must ensure that the relevant form of proxy, duly completed and executed, is filed with the chairperson in the following manner:

1. by hand, c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Office Park, Linbro Park, by no later than 10:00 on Thursday, 15 January 2004; or
2. by post, c/o Charl du Plessis, PO Box 1697, Bramley, 2018, to be received by no later than 10:00 on Thursday, 15 January 2004; or
3. by facsimile, c/o Charl du Plessis, facsimile number 011 458 6615, by no later than 10:00 on Thursday, 15 January 2004; or
4. by handing the form of proxy to the chairperson no later than 10 minutes before the time for commencement of the scheme meeting.

In terms of the Order of Court, the chairperson will report the result of the scheme meeting to the above Honourable Court on Tuesday, 27 January 2004. A copy of such report will be available on request (free of charge) to any creditor of MGX at MGX's registered office referred to above, at least 1 (one) week before such report-back date, or in respect of any adjourned scheme meeting, for at least 1 (one) week before the report-back date for the adjourned scheme meeting.

#### **MERVYN TABACK**

*Chairperson of the scheme meeting*

#### **Attorneys to the scheme**

Webber Wentzel Bowens  
10 Fricker Road  
Illovo Boulevard  
Illovo  
Johannesburg, 2196  
(PO Box 61771, Marshalltown, 2107)  
Telephone number (011) 530 5000  
Facsimile number (011) 530 5120  
Reference: J C Els/J A Milner

**\*The bold insertions marked with \* will not be published in the newspapers or Government Gazette.**

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## IMPORTANT FEATURES OF THE SCHEME

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1. This summary contains the essence of the scheme detailed in the explanatory statement which should be read in its entirety for full appreciation thereof.
2. MGX is proposing the scheme between the company and the scheme creditors, which, if the scheme becomes operative, will result in the scheme creditors being paid the scheme consideration in full and final settlement of their claims, in accordance with the provisions of the scheme. The secured creditors are not required or entitled to participate in the scheme as these creditors have contractually agreed to restructure their claims against the company in the debt refinancing. The ECH creditors are not required or entitled to participate in the scheme.
3. The Common Terms Agreement which governs the debt restructuring of MGX, is conditional upon the implementation of a scheme of arrangement between MGX and certain of its creditors, other than its secured creditors. MGX has elected to propose the scheme and the ECH creditor scheme as separate schemes of arrangement. By virtue of the provisions of the Common Terms Agreement, the secured creditors are entitled to waive, *inter alia*, the fulfilment of such condition precedent. On Thursday, 11 December 2003, the Court dismissed an application by the company to convene the ECH creditor scheme. The secured creditors have confirmed that, upon the scheme becoming operative, they will waive the said condition precedent mentioned in this paragraph, notwithstanding that the ECH creditors scheme was not implemented. The secured creditors have also indicated that they will proceed with the financial restructuring of the company in the knowledge that the company faces the risk of a potential additional liability, if the mandatory offer is made.
4. Creditors of MGX to whom notice convening the scheme meeting is sent, are regarded as scheme creditors and these scheme creditors are required, upon the scheme becoming operative, to prove their claims to the Receiver.
5. MGX shall deliver the scheme consideration to the scheme creditors directly, or to the Receiver, acting on behalf of the scheme creditors, as and when instructed to do so by the Receiver, which shall be the sole and exclusive manner of discharge by MGX of its obligations to make payment to the scheme creditors in respect of all claims which the scheme creditors may have against MGX.
6. The financial position of MGX is as set out in the explanatory statement commencing on page 31 of this circular. For a full appreciation of the financial position of MGX, scheme creditors are advised to read the explanatory statement.

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## **THE SCHEME**

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**THE SCHEME OF ARRANGEMENT PROPOSED BY MGX HOLDINGS LIMITED BETWEEN MGX HOLDINGS LIMITED AND CERTAIN OF ITS CREDITORS IN TERMS OF SECTION 311 OF THE COMPANIES ACT, 1973 (ACT 61 OF 1973), AS AMENDED**

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### **CHAPTER 1: Introduction**

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#### **1. INTRODUCTION**

MGX Holdings Limited proposes the scheme of arrangement set out in this document between MGX Holdings Limited and its concurrent creditors (other than the secured creditors and the ECH creditors).

The scheme is set out in the following chapters:

- 1.1 Chapter 1 – Introduction;
- 1.2 Chapter 2 – Definitions and interpretations;
- 1.3 Chapter 3 – Conditions precedent;
- 1.4 Chapter 4 – Substance of the scheme;
- 1.5 Chapter 5 – Voting at the scheme meeting;
- 1.6 Chapter 6 – Administrative provisions;
- 1.7 Chapter 7 – The Receiver: Powers and Duties; and
- 1.8 Chapter 8 – General provisions.

This document is signed by the nominated Receiver to be appointed for the scheme and by MGX Holdings Limited (who hereby bind themselves to perform the duties imposed on them in terms of the scheme).

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## CHAPTER 2: Definitions and interpretation

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### 2. DEFINITIONS AND INTERPRETATION

In this scheme, unless otherwise indicated by the context:

- 2.1 reference to the singular shall include the plural and *vice versa*;
- 2.2 words denoting one gender include the other;
- 2.3 expressions denoting natural persons include legal persons and *vice versa*; and
- 2.4 the words and phrases listed below in the first column have the meanings stated opposite them in the second column:

2.4.1	“business day”	any day other than a Saturday, Sunday or official public holiday in South Africa;
2.4.2	“the chairperson”	Mervyn Taback, or failing him, Rupert Smith, or failing both of them any other independent person agreed to by the Court to act as chairperson of the scheme meeting;
2.4.3	“claim”	any claim of whatsoever nature and description and howsoever arising, including claims, both actual and contingent, conditional and unconditional, liquidated and unliquidated, assessed or unassessed, or otherwise, and whether due for payment, performance, delivery or action or thereafter to become so due and including, but not limited to, claims arising out of any contracts concluded, or delicts committed;
2.4.4	“the Code”	the Securities Regulation Code and Rules of the SRP made in terms of sections 440C(1), (3) and (4) of the Companies Act;
2.4.5	“the Common Terms Agreement”	the Common Terms Agreement, dated Thursday, 20 November 2003, entered into between the secured creditors, Main Street 152 (Proprietary) Limited, MGX, Micawber 305 (Proprietary) Limited and a number of guarantors mentioned in that agreement;
2.4.6	“the Companies Act”	the Companies Act, 1973 (Act 61 of 1973), as amended;
2.4.7	“the conditions precedent”	the conditions precedent set out in Chapter 3 of this scheme;
2.4.8	“the Court”	the High Court of South Africa (Witwatersrand Local Division), which is located in the High Court Building, von Brandis Square, corner Pritchard and von Brandis Streets, Johannesburg;
2.4.9	“the debt refinancing”	the refinancing of the interest-bearing debts owed by MGX to the secured creditors pursuant to the Common Terms Agreement;
2.4.10	“distribution date”	any date on which the Receiver is in terms of the scheme required to make a distribution to the scheme creditors;
2.4.11	“ECH”	EC-Hold Limited (Registration number 1998/020093/06), a public company incorporated in South Africa, all of the issued ordinary shares of which are listed on the JSE;

2.4.12	“ECH creditors”	all persons having claims against MGX pursuant to the mandatory offer;
2.4.13	“the final date”	the date on which MGX announces on SENS that the conditions precedent have been fulfilled, being the date on which the scheme will become unconditional and binding, which final date is expected to be Thursday, 29 January 2004;
2.4.14	“the Guarantor”	the guarantor as defined in the Common Terms Agreement;
2.4.15	“the Insolvency Act”	the Insolvency Act, 1936 (Act 24 of 1936), as amended;
2.4.16	“JSE”	JSE Securities Exchange South Africa;
2.4.17	“mandatory offer”	any offer which MGX makes for the purchase of ECH shares, to shareholders of ECH at a date agreed to between MGX and the SRP, or alternatively as finally ruled by the SRP or any competent court (excluding MGX and its concert parties (as determined by the SRP), Cycad Financial Holdings Limited and any nominees holding ECH shares on any such party’s behalf), which offer is made in terms of Rule 8.1 of the Code and arises out of the acquisition by MGX and the said concert parties of ECH shares on or about 8 October 1999;
2.4.18	“meeting record date”	means 17:00 two business days immediately preceding the scheme meeting which is expected to be Thursday, 15 January 2004;
2.4.19	“MGX”	MGX Holdings Limited (Registration number 1983/012697/06), a public company incorporated in accordance with the laws of South Africa, all of the issued ordinary shares of which are listed on the JSE;
2.4.20	“the notes”	secured interest-bearing redeemable convertible loan notes to be issued by MGX to the scheme creditors pursuant to the scheme, in settlement of their claims, having the terms and conditions set out in Annex “A” to this scheme;
2.4.21	“the Receiver”	the Receiver referred to in clause 13 of this scheme, having the rights and obligations set out in Chapter 7 of the scheme;
2.4.22	“the Registrar”	the Registrar of Companies in South Africa;
2.4.23	“the scheme”	the scheme of arrangement proposed by MGX between MGX and the scheme creditors, in terms of section 311 of the Companies Act, on the terms and conditions set out in this document;
2.4.24	“the scheme consideration”	the notes in an amount for each scheme creditor equal to the face value of that scheme creditor’s claim against MGX as determined in accordance with the provisions of Chapter 6, rounded up to the nearest R1,00;
2.4.25	“the scheme creditors”	all creditors having claims against MGX determined at the meeting record date for the purposes of the scheme meeting and, where appropriate, determined at the final date for purposes of the scheme when it becomes operative, other than the secured creditors and the ECH creditors;

2.4.26	“the scheme meeting”	means the meeting (or any adjournment thereof) of the scheme creditors convened in terms of section 311 of the Companies Act, at which scheme meeting scheme creditors will consider and vote on the scheme. The scheme meeting will be held at 10:00 at 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, on Monday, 19 January 2004;
2.4.27	“SENS”	the Securities Exchange News Services of the JSE;
2.4.28	“South Africa”	the Republic of South Africa;
2.4.29	“secured creditors”	Citibank N.A., South African Branch, Investec Bank Limited, Nedbank Limited, Momentum Group Limited, Standard Corporate Merchant Bank (a division of The Standard Bank of South Africa Limited), Capital Africa Limited, South African Private Equity Trust III, Drive Control Services (Proprietary) Limited and Eurevest Leasing (Proprietary) Limited, up to the amounts of their claims against MGX which are validly secured as agreed between such parties and MGX pursuant to the terms of the Common Terms Agreement; and
2.4.30	“SRP”	the Securities Regulation Panel, established in terms of section 440B of the Companies Act.

In the interpretation of the scheme, the *contra proferentem* rule shall not apply nor shall the scheme be construed in favour of or against any party by reason of the extent to which any party or its professional advisers have participated in the preparation of the scheme.

The clause headings in the scheme have been inserted for convenience only and shall not be taken into account in its interpretation.

The scheme shall be governed by and construed and interpreted in accordance with the laws of South Africa.

Where any number of days is prescribed in the scheme, those days shall be reckoned exclusively of the first and inclusively of the last day unless the last day falls on a Saturday, Sunday or official public holiday in South Africa, in which event the last day shall be next succeeding day which is not a Saturday, Sunday or official public holiday in South Africa.

Any reference in the scheme to a statutory provision shall include any subordinate legislation made from time to time under that provision and shall include that provision as amended or re-enacted from time to time.

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## CHAPTER 3 – Conditions precedent

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### 3. CONDITIONS PRECEDENT

The scheme will become unconditional and binding on the final date, subject to the fulfilment of the last of the following conditions precedent:

- 3.1 the Common Terms Agreement becoming unconditional, save for any condition in that agreement requiring the scheme to become unconditional;
- 3.2 the approval by the requisite majority of shareholders of MGX in general meeting of:
  - 3.2.1 the debt refinancing;
  - 3.2.2 implementation of the transactions contemplated in the debt refinancing;
  - 3.2.3 the issuance of the notes pursuant to the scheme;
- 3.3 all regulatory approvals and consents necessary in respect of the transactions contemplated in the debt refinancing and the scheme being obtained, including but not limited to the requisite approvals and consents of the SRP and the JSE, if necessary;
- 3.4 the scheme being approved at the scheme meeting by a majority in number representing not less than three-fourths in value of the scheme creditors present and voting, either in person or by proxy, at the scheme meeting;
- 3.5 the Court sanctioning the scheme;
- 3.6 a certified copy of the Order of Court sanctioning the scheme being lodged with, and registered by, the Registrar in terms of the Companies Act; and
- 3.7 the announcement by MGX on SENS that all conditions precedent have been fulfilled or waived in accordance with the terms of the scheme.

MGX shall be entitled to waive or extend the period for fulfilment of any of the conditions precedent in whole or in part, to the extent permissible in law, by notice published on SENS and in the press.

If the conditions precedent are not fulfilled or waived by 29 January 2004 (or such later date as may be announced by MGX on SENS and in the press), the scheme shall lapse and be of no further force or effect.

MGX undertakes to announce the final date on SENS and in the press upon or as soon as reasonably possible after the fulfilment (or waiver) of all of the conditions precedent, other than the condition precedent listed in clause 3.7.

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## CHAPTER 4: Substance of the scheme

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### 4. THE SCHEME

- 4.1 Subject to the scheme becoming unconditional, the scheme creditors shall be deemed with effect from the final date to have:
- 4.1.1 agreed to accept the scheme consideration in full and final settlement of all claims which they have against MGX; and
  - 4.1.2 authorised the Receiver to procure that MGX distributes the scheme consideration to the scheme creditors.
- 4.2 The delivery by MGX of the scheme consideration to the Receiver and/or the scheme creditors, shall be the sole and exclusive manner of discharge by MGX of its obligations to make payment to the scheme creditors, in respect of all claims which the scheme creditors may have against MGX, which claims are compromised under the scheme.
- 4.3 Upon the scheme becoming operative, the mechanics of the scheme will be as follows:
- 4.3.1 the scheme creditors will be obliged to prove their claims to the Receiver pursuant to the provisions of Chapter 6 of the scheme; and
  - 4.3.2 the Receiver shall procure that the scheme consideration be paid by MGX (which MGX undertakes to do) to the scheme creditors in full and final settlement of their claims in the amounts proved to or accepted by the Receiver, on the due date for payment of such claims, or such earlier date as determined by the Receiver pursuant to the terms of the scheme.
- 4.4 The scheme consideration will be issued to the scheme creditors without regard to any lien, right of set-off, counterclaim or other analogous right to which MGX may otherwise be entitled against any scheme creditor.
- 4.5 The Receiver undertakes to exercise, at the request of any scheme creditor, the Receiver's rights to require MGX to distribute the scheme consideration to the relevant scheme creditor.

### 5. NOTES

The notes forming the subject matter of the scheme consideration will have the terms and conditions set out in Annex "A" hereto.

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## CHAPTER 5: Voting at the scheme meeting

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### 6. VOTING AT THE SCHEME MEETING

- 6.1 The scheme creditors of MGX who are present or represented at the scheme meeting, and who are reflected in the books of accounts and records of MGX as creditors at the meeting record date, shall be regarded by the chairperson as scheme creditors in respect of the amounts for which they so appear in the books of account and records of MGX provided that any such a creditor with a claim falling due for payment after the final date shall be regarded by the chairperson as such a creditor for an amount equal to the face value of the claim, less 10% per annum of that face value, reckoned from the date on which the scheme meeting is being held, to the due date for payment of such claim.
- 6.2 MGX shall, for the purposes of clause 6.1 of the scheme, prior to the date of the scheme meeting furnish the chairperson with a list of all known scheme creditors (after having made reasonable enquiries) and specify in respect of each such creditor the amount for which that creditor is to be regarded as a scheme creditor for the purposes of the scheme meeting.
- 6.3 Any scheme creditor who is not reflected in the books of account and records of MGX as creditor, or claims to be a scheme creditor for an amount different to that reflected in the books of account and records of MGX, shall be entitled, at any time prior to the meeting record date to prove such claim to the chairperson in accordance with Chapter 6 of the scheme, *mutatis mutandis*. The chairperson may reject or accept such creditor as a scheme creditor in the chairperson's sole and absolute discretion and the chairperson's determination in this regard shall be final and binding upon such creditor and that creditor's right to vote at the scheme meeting.

### 7. GENERAL VOTING PROVISIONS

- 7.1 For the purposes of determining whether the scheme is agreed to by the requisite majority of scheme creditors required by section 311(2)(b) of the Companies Act at the scheme meeting, the chairperson shall accept that each scheme creditor is a creditor for a value determined in terms of this Chapter 5, whether or not that value is determined in respect of a scheme creditor with an unliquidated claim for damages or otherwise and whether or not the amount so determined is disputed by any of the scheme creditors concerned, MGX or any other interested party.
- 7.2 The provisions of this Chapter 5 will apply only for the purposes referred to in clause 6 above and are without prejudice to the rights of:
- 7.2.1 any scheme creditor to prove a claim for any other amount in accordance with Chapter 6 of the scheme;
- 7.2.2 the Receiver to reject any claim filed by any scheme creditor or accept any claim as proved for any other amount in accordance with Chapter 6 of the scheme.
- 7.3 Subsidiaries of MGX that are scheme creditors have undertaken not to vote at the scheme meeting and their claims will accordingly not be taken into account in determining whether the scheme has been approved by the requisite majority of scheme creditors.

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## **CHAPTER 6: Administrative provisions**

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### **8. PROOF OF CLAIMS**

- 8.1 Subject to the provisions of this Chapter 6, the claims of scheme creditors in terms of the scheme shall be proved to and adjudicated upon by the Receiver as if they were claims against a company in liquidation.
- 8.2 The Receiver shall, in relation to the admittance or rejection of any claims, have *mutatis mutandis* the same powers for the purposes of the scheme as a provisional or final liquidator of a company in liquidation.

### **9. SCHEME CREDITORS REFLECTED IN THE BOOKS OF ACCOUNT AND RECORDS OF MGX**

- 9.1 Scheme creditors who are reflected in the books of account and records of MGX as creditors are not required to prove their claims and shall be regarded by the Receiver as creditors for the amounts for which they appear to be creditors, unless the Receiver in writing, by registered post, notifies any particular scheme creditor that he rejects such claim, in which event that scheme creditor shall be required to prove his claims in terms of the provisions of clause 10.
- 9.2 Scheme creditors who allege that they are creditors for amounts which differ from those appearing in the books of account and records of MGX, as notified by the Receiver in terms of clause 14.1.1.2, are required to lodge their claims in accordance with the provisions of clause 10.

### **10. SCHEME CREDITORS WITH CLAIMS REJECTED OR NOT REFLECTED IN THE BOOKS OF ACCOUNT AND RECORDS OF MGX**

- 10.1 Scheme creditors whose claims are rejected in whole or in part as contemplated in clause 9.1 shall be required to prove their claims within a period of 60 days after receipt of a written notice as envisaged in clause 14.1.1.2.
- 10.2 Scheme creditors who allege that they are creditors for amounts which differ from those appearing in the books of account and records of MGX as notified by the Receiver in terms of clause 14.1.1.2, shall be required to prove their claims within a period of 60 days after receipt of a written notice as envisaged in clause 14.1.1.2.
- 10.3 Scheme creditors not reflected in the books of account and records of MGX must lodge their claims for proof with the Receiver within a period of 60 days after the final date.
- 10.4 Claims shall be proved to the satisfaction of the Receiver as if he was the officer presiding at a meeting for the proof of claims within the meaning of section 44 of the Insolvency Act, as read with section 366 of the Companies Act, supported by affidavits which are to contain such information and are to be accompanied by such supporting documents as are required for proving claims in accordance with the foregoing statutory provisions.
- 10.5 The Receiver's decision to reject any claim, whether wholly or partly, shall be subject to review by the Court upon the application of any person affected thereby, provided that any such review proceedings shall be brought within 30 days of receipt of advice of that decision in writing from the Receiver. Should the affected party fail to make such an application, he shall be deemed to have waived his right to dispute such decision and shall thereafter be debarred from bringing such review proceedings.

## 11. SCHEME CREDITORS HAVING CONDITIONAL CLAIMS

- 11.1 Creditors with conditional claims against MGX shall lodge their claims with the Receiver within a period of 60 days after the final date.
- 11.2 Once the condition to which the claim has been subject is fulfilled, the scheme creditors shall be obliged to prove such claim in terms of clause 10.
- 11.3 The Receiver shall procure that MGX make payment of the scheme consideration to a scheme creditor in respect of a conditional claim by no later than the date on which the condition is fulfilled.

## 12. LATE PROOF OF CLAIMS

- 12.1 Scheme creditors, other than scheme creditors who accept that they are creditors for the amounts reflected in the books of account and records of MGX (as advised by the Receiver), who are not notified by the Receiver that he rejects such claim, who have received proper notice of the:
  - 12.1.1 submission of the scheme;
  - 12.1.2 terms of the scheme;
  - 12.1.3 scheme meeting; and
  - 12.1.4 sanction of the scheme by the Court,and who have, together with notification of the sanction, had their attention specifically directed to the contents of this clause 12 and who failed to submit their claims within the relevant period stipulated in clause 10, shall be deemed to have abandoned their claims against MGX, free of consideration.
- 12.2 Any scheme creditor, other than a scheme creditor as envisaged in clause 12.1, not having been given proper notice of the:
  - 12.2.1 submission of the scheme;
  - 12.2.2 terms of the scheme;
  - 12.2.3 scheme meeting; or
  - 12.2.4 sanction of the scheme by the Court,and not having had his attention specifically directed to the contents of this clause 12.2 shall be entitled to prove his claim in the manner stipulated in clause 10 within 60 days after receiving proper notice of the matters referred to in clause 10, failing which he shall be deemed to have abandoned his claim against MGX, free of consideration.
- 12.3 The claim of a scheme creditor who proves a claim in terms of clause 12.2 (“**the late creditor**”) shall be entitled to request the Receiver to demand from MGX the issue of the scheme consideration to the relevant scheme creditor in respect of the payment of the claim of the late creditor as and when such payment becomes due and payable pursuant to the terms of such claim.

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## **CHAPTER 7: The Receiver – Powers and Duties**

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### **13. THE RECEIVER**

- 13.1 The Receiver shall be Norman Klein or failing him, Peter Bothomley, both of Westrust (Proprietary) Limited and his appointment shall take effect on the final date.
- 13.2 Should both Norman Klein and Peter Bothomley for any reason become unable or unwilling to act, they shall be replaced by a person nominated by MGX and appointed by the Court, on application by MGX.

### **14. DUTIES AND POWERS OF THE RECEIVER**

- 14.1 The Receiver shall, after the final date:
- 14.1.1 forthwith notify:
    - 14.1.1.1 all known creditors that the scheme has been sanctioned, and in particular draw their attention to the provisions of clauses 8 to 12 above and their rights and obligations thereunder;
    - 14.1.1.2 all scheme creditors reflected in the books of account and records of MGX, save in the circumstances contemplated by clause 14.1.1.3, that they are regarded by him as being creditors for the purposes of participating in the scheme, and of the amounts for which they so appear to be creditors in the books of account and records of MGX, stating such amount;
    - 14.1.1.3 all scheme creditors envisaged in clause 14.1.1.2 that their claims for purposes of participating in the distribution in terms of the scheme will be deemed to be as advised to them in terms of clause 14.1.1.2, unless creditors establish some other claim or a claim for some other amount, in the manner envisaged in clause 10;
  - 14.1.2 provided he is satisfied that a claim of any particular scheme creditor is, as it appears in the books of account and records of MGX, incorrect, or for any other reason rejectable by him, advise such creditor in writing of the fact that he rejects such claim and that such creditor thereupon is obliged to prove its claim in terms of the provisions of clause 8;
  - 14.1.3 have the right to:
    - 14.1.3.1 take all steps necessary to enforce due compliance by MGX with any obligations imposed upon or assumed by MGX in terms of the scheme;
    - 14.1.3.2 in his own name, in his capacity as Receiver and without further authorisation from MGX, institute any proceedings against any person which may be required to give effect to the scheme;
    - 14.1.3.3 agree to arbitration or any other formal or informal alternative dispute resolution procedure in respect of any dispute with any scheme creditors;
    - 14.1.3.4 defend any proceedings brought against the Receiver arising out of the scheme;
  - 14.1.4 be entitled to dispute any claim, having particular regard to the provisions of clauses 8 to 12 above and in particular the power to reject the claims as if he was a liquidator of a company in final or provisional liquidation;
  - 14.1.5 be entitled in his discretion to compromise or otherwise determine by agreement the amount of any claim proved or to be proved in terms of clauses 8 to 12 above;

- 14.1.6 be entitled to engage the services of legal and other professional advisers in connection with any matter concerning his functions and duties, to dispense with taxation of and to agree the amount of the reasonable fees and charges of such legal and other professional advisers and to require MGX to pay or procure the payment of the remuneration and disbursements of the persons so engaged;
  - 14.1.7 be entitled to employ personnel and contractors for such periods and on such terms and conditions as he may consider appropriate to assist him in carrying out his functions and duties and to request MGX to pay the remuneration and disbursements of the persons so employed;
  - 14.1.8 at all times have access to all books, records, documentation and trading figures of MGX as he may reasonably and properly require for the execution of his duties as Receiver in terms of the scheme;
  - 14.1.9 in his discretion, be entitled to settle any dispute with any scheme creditor with regard to the scheme or its implementation;
  - 14.1.10 be entitled to procure that a claim is paid by way of a distribution of the scheme consideration as and when he deems fit, notwithstanding that all claims against the Receiver have not yet been proved; and
  - 14.1.11 have all such powers as may be necessary for, or as may facilitate, the implementation of the scheme including, without limitation, the powers enjoyed by a liquidator in terms of section 386 of the Companies Act (provided that the exercise of such power shall not require the approval of the Master of the High Court or the scheme creditors) and the right to effect or procure payment (in the form of the scheme consideration) of any proved claim prior to the distribution date.
- 14.2 MGX agrees to co-operate fully with and to assist the Receiver in all respects in order to achieve the successful implementation of the scheme in accordance with its terms and to pay and discharge all remuneration and disbursements necessarily incurred for that purpose.

## 15. **ANNOUNCEMENT BY THE RECEIVER**

The Receiver shall, within 120 days of the final date, make an announcement on SENS giving details of the scheme (including the number of scheme creditors and the value of the scheme consideration issued), whereafter he shall be deemed to have been discharged from his obligations in terms of the scheme.

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## CHAPTER 8: General provisions

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### 16. **DOMICILIUM AND NOTICES**

MGX and the Receiver choose *domicilium citandi et executandi* c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, where all notice and all processes arising out of or in connection with the scheme may be validly delivered to or served upon them. Each scheme creditor shall be deemed to have chosen *domicilium citandi et executandi* for all purposes arising out of or in connection with the scheme at the address stated by that creditor in his proof of claim form, or, in the event of any creditor not having lodged any proof of claim form, then at the address as reflected in the books of account and records of MGX. Notices dispatched by the Receiver in the implementation of the scheme shall be deemed to have been received by the addressee reflected on such notice on the seventh business day after dispatch thereof by pre-paid registered post to the addressee's *domicilium citandi et executandi*.

### 17. **AMENDMENT**

The scheme may be amended, varied or modified by MGX in writing before or at the scheme meeting, at any time prior to the voting in respect of the scheme. Thereafter, the scheme may be amended, varied or modified by agreement between MGX and the Receiver, subject to the leave of the Court first having been obtained, provided that no amendment, variation or modification made after the scheme meeting may have the effect of diminishing the rights which will accrue to a scheme creditor in terms of the scheme.

### 18. **GENERAL**

18.1 A certificate signed by the Receiver, together with the board of directors of MGX stating that all conditions of the scheme have been fulfilled and that the scheme has become unconditional shall be binding on MGX, the Receiver and the scheme creditors.

18.2 All dates and times referred to in the scheme are subject to amendment. Details of any such amendments will be published on SENS and in the press.

18.3 MGX shall procure that the costs of preparing, signing and carrying the scheme into effect and all matters incidental to it shall be borne and paid by MGX Management Services (Proprietary) Limited, a wholly-owned subsidiary of MGX.

Signed by

**Norman Klein in his capacity as nominated  
Receiver for the scheme creditors**

and

**MGX HOLDINGS LIMITED**

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## TERMS OF THE NOTES

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### 1. DEFINITIONS AND INTERPRETATION

In these Terms and Conditions:

#### 1.1 Unless the context clearly indicates a contrary intention:

- 1.1.1 the expressions defined or given a particular construction in the Common Terms Agreement (as defined below), shall have the same meaning in these Terms and Conditions;
- 1.1.2 the following expressions shall bear the following meanings and related expressions bear corresponding meanings:
- 1.1.2.1 "**Certificate**" means a certificate issued by the Issuer to a Noteholder in respect of the Notes held by that Noteholder;
- 1.1.2.2 "**Common Terms Agreement**" means a written Common Terms Agreement executed on Thursday, 20 November 2003 amongst, *inter alia*, Citibank, N.A., South African Branch, Investec Bank Limited, Nedbank Limited, Momentum Group Limited, Standard Corporate and Merchant Bank (a division of The Standard Bank of South Africa Limited), Capital Africa Limited, South African Private Equity Trust III, Drive Control Services (Proprietary) Limited, MGX Holdings Limited, Main Street 152 (Proprietary) Limited, Metrofile (Proprietary) Limited, Micawber 305 (Proprietary) Limited, Eurevest Leasing (Proprietary) Limited and the Original Guarantors listed in schedule 1 thereto (as the same may be amended, varied or supplemented from time to time in accordance with the provisions thereof);
- 1.1.2.3 "**Final Redemption Date**" means the 5th anniversary of the Effective Date;
- 1.1.2.4 "**Indebtedness**" means any indebtedness in respect of monies borrowed and guarantees given, whether present or future, actual or contingent;
- 1.1.2.5 "**Instrument of Transfer**" means an instrument of transfer (in form and substance satisfactory to the Facility Agent), which shall incorporate, *inter alia*:
- 1.1.2.5.1 an Accession Undertaking;
- 1.1.2.5.2 a Transfer Certificate;
- 1.1.2.5.3 written confirmation from the transferee of the Notes that it will assume the same obligations to the other Finance Parties as it would have been under if it was the registered Noteholder in respect of the Notes to be transferred to it;
- 1.1.2.6 "**Interest**" means interest payable on the Notes, calculated at the Interest Rate;
- 1.1.2.7 "**Interest Rate**" means Prime plus 3% per annum;
- 1.1.2.8 "**Issuer Shares**" means shares in the unissued share capital of the Issuer;
- 1.1.2.9 "**Issue Price**" means R1.00 per Note;
- 1.1.2.10 "**the Issuer**" means MGX Holdings Limited (Registration number 1983/012697/06), a public company incorporated under the company laws of the Republic of South Africa;

- 1.1.2.11 “**Note**” means an MGX “A” Note, being a secured note of R1.00, issued by the Issuer on these Terms and Conditions;
  - 1.1.2.12 “**Noteholder**” means the registered holder of a Note from time to time;
  - 1.1.2.13 “**Prime**” means the publicly quoted basic rate of interest per annum, compounded monthly in arrear and calculated on a 365-day year (irrespective of whether or not the year is a leap year) from time to time published by The Standard Bank of South Africa Limited as being its prime overdraft rate, as certified by any manager of such bank, whose appointment and designation need not be proved;
  - 1.1.2.14 “**Redemption Date**” means a date on which Notes are redeemed pursuant to clause 7 or clause 8, as the case may be;
  - 1.1.2.15 “**Redemption Notice**” means a notice given by the Issuer to the Noteholder redeeming all or some of the Notes held by a Noteholder;
  - 1.1.2.16 “**Redemption Proceeds**” means the proceeds payable by the Issuer to a Noteholder on a redemption of Notes, being the nominal value of the Notes redeemed plus all accrued unpaid Interest thereon;
  - 1.1.2.17 “**Register**” means the register of Noteholders to be opened and maintained by the Issuer;
  - 1.1.2.18 “**Scheme**” means the MGX Scheme, a scheme of arrangement in terms of section 311 of the Companies Act between the Issuer and certain of its creditors, sanctioned by the High Court of South Africa (Witwatersrand Local Division), pursuant to which the scheme creditors are to compromise their claims against the Issuer by accepting Notes;
  - 1.1.2.19 “**Security**” means the security given by the Debt Guarantor to, amongst others, the Trust for the benefit of Noteholders, comprising the MGX Facility Guarantee, as defined in the Common Terms Agreement;
  - 1.1.2.20 “**these Terms and Conditions**” means the terms and conditions of the Notes, as set out herein;
  - 1.1.2.21 “**the Trust**” means the MGX Noteholders Trust, established between the Debt Guarantor, Newco, Maitland Trust Limited and the Issuer;
  - 1.1.2.22 “**the Trust Deed**” means the written instrument creating and governing the Trust; and
  - 1.1.2.23 “**Trustee**” means the trustee for the time being of the Trust;
- 1.1.3 where any term is defined within the context of any particular clause, unless it is clear from the clause in question that the term so defined has limited application to the relevant clause, the term so defined shall bear the meaning ascribed to it for all purposes in terms of these Terms and Conditions, notwithstanding that the term has not been defined in this interpretation clause.

## 2. INCORPORATION OF TERMS AND DEEMED NOTICE

### 2.1 Common Terms Agreement

- 2.1.1 The provisions of the Common Terms Agreement are expressly and specifically incorporated into these Terms and Conditions, in accordance with the provisions of clause 2.5 (Application and Interpretation of this Agreement) thereof.
- 2.1.2 In the event of any conflict between the provisions of these Terms and Conditions and the provisions of the Common Terms Agreement, the provisions of these Terms and Conditions shall prevail.

## 2.2 **Trust Deed**

2.2.1 In addition to the provisions of these Terms and Conditions, the provisions of the Trust Deed shall apply to the Notes.

2.2.2 In the event of any inconsistency between the provisions of these Terms and Conditions and the provisions of the Trust Deed, these Terms and Conditions shall prevail in relation to the Notes.

## 2.3 **Intercreditor Agreement**

2.3.1 These Terms and Conditions and the rights and obligations of the Noteholders shall in all respects be subject to the provisions of the Intercreditor Agreement.

2.3.2 In the event of any inconsistency between the provisions of these Terms and Conditions and the Intercreditor Agreement, the provisions of the Intercreditor Agreement shall prevail.

## 2.4 **Subordination Agreement**

2.4.1 These Terms and Conditions and the rights and obligations of the Noteholders shall in all respects be subject to the provisions of the Subordination Agreement.

2.4.2 In the event of any inconsistency between the provisions of these Terms and Conditions and the Subordination Agreement, the provisions of the Subordination Agreement shall prevail.

## 2.5 **Deemed Notice**

2.5.1 The Noteholders are deemed to have notice of the provisions of the Common Terms Agreement, the Trust Deed, the Intercreditor Agreement, the Subordination Agreement, the MGX Facility Guarantee and any other Transaction Documents to which the Trustee is a party (in its capacity as Trustee).

2.5.2 Any Noteholder shall be entitled, upon written request to the Trustee, to receive copies of Common Terms Agreement, the Trust Deed, the Intercreditor Agreement, the Subordination Agreement, the MGX Facility Guarantee and any other Transaction Documents to which the Trustee is a party (in its capacity as Trustee), provided that a failure by the Trustee to provide any such copies to any Noteholder, shall not affect the validity or enforceability of the provisions of clause 2.5.1.

## 2.6 **Accession by Trustee**

To the extent as may be necessary or required, the Noteholders authorise the Trustee to accede as a party to the Common Terms Agreement, the Intercreditor Agreement, the Subordination Agreement, the MGX Facility Guarantee as well as any other Transaction Documents in which it is contemplated that the Trustee will become a party (in its capacity as Trustee).

## 3. **ISSUE OF NOTES**

3.1 Each Note shall be issued at its nominal value of R1.00.

3.2 The Issuer shall issue Notes to scheme creditors of the Issuer compromised under the Scheme. The number of Notes issued to a Noteholder shall equal the Rand value of the Noteholder's claim against the Issuer, rounded to the nearest R1.00, compromised by the issue of those Notes.

3.3 Payment of the Issue Price in respect of each Note shall be effected by set-off against the claims of the Noteholder against the Issuer settled by the issue of Notes.

3.4 No Note shall be issued for cash.

#### **4. ESTABLISHMENT AND MAINTENANCE OF THE REGISTER**

The Issuer shall establish and maintain the Register in accordance with section 128 of the Companies Act.

#### **5. INTEREST**

5.1 Interest on the Notes will accrue daily at the Interest Rate. Unpaid interest will be capitalised on a quarterly basis on the last day of every Quarterly Period.

5.2 Interest shall be paid, to the extent that the Issuer has sufficient funds to do so in accordance with and to the extent permitted by the Priority of Payments and/or clause 10 (Prepayments and Cancellations) of the Common Terms Agreement. There shall be no obligation on the Issuer to pay interest, otherwise than in accordance with the Priority of Payments and/or clause 10 (Prepayments and Cancellations) of the Common Terms Agreement.

5.3 Notwithstanding the preceding provisions of these Terms and Conditions, interest on Notes redeemed for cash pursuant to clause 7 (but excluding partial redemptions as contemplated in clause 7.3) shall cease to accrue from the Redemption Date of those Notes as specified in the relevant Redemption Notice.

#### **6. SECURITY**

6.1 It is recorded that the Trust has been established to take and hold the security in respect of the obligations of the Issuer under the Notes on behalf of all Noteholders. Such security comprises the MGX Facility Guarantee, given by the Debt Guarantor.

6.2 Save as provided in 6.1, the Notes are unsecured. Neither the Trust nor any Noteholder shall be entitled to any benefit from the MGX Facility Guarantee, otherwise than in accordance with the Priority of Payments.

6.3 No Noteholder shall be entitled to proceed directly against the Debt Guarantor for any payment under the MGX Facility Guarantee. The basis on which the Trust may enforce its rights under the MGX Facility Guarantee are set out in the MGX Facility Guarantee and the Trust Deed.

#### **7. REDEMPTIONS FOR CASH**

7.1 The Issuer shall only redeem Notes for cash, to the extent that it has sufficient funds to do so in accordance with the Priority of Payments and/or clause 10 (Prepayments and Cancellations) of the Common Terms Agreement and prior to the Final Redemption Date.

7.2 Any Notes not redeemed for cash by the Final Redemption Date shall be redeemed by the issue of Issuer Shares as contemplated in clause 8.

7.3 Any redemption for cash which constitutes a partial redemption of all Notes in issue shall be effected so as to redeem the same percentage of Notes from each Noteholder.

7.4 If the Issuer becomes obliged by the Priority of Payments and/or clause 10 (Prepayments and Cancellations) of the Common Terms Agreement to redeem Notes for cash, the Issuer shall send to the Noteholder, at the address of that Noteholder specified in the Register, a Redemption Notice:

7.4.1 specifying the number of Notes held by that Noteholder which are to be redeemed for cash;

7.4.2 specifying the Redemption Date of such redemption, which shall be a date not earlier than the 20th Business Day after the date of the Redemption Notice; and

7.4.3 calling on the Noteholder to surrender its existing Certificate prior to the Redemption Date in order to receive the Redemption Proceeds due to that Noteholder. The Redemption Notice

shall draw the attention of Noteholders to the fact that Interest on the Notes will cease to accrue from the Redemption Date, irrespective of whether the Noteholder surrenders its Certificate as required by the Redemption Notice.

- 7.5 Payment of Redemption Proceeds due to Noteholders shall be procured and paid by the Issuer on the Redemption Date specified in the Redemption Notice, provided that if a Noteholder has not surrendered his Certificate by the Redemption Date, payment to that Noteholder shall be deferred and shall only be made within five Business Days after surrender of the relevant Certificate by the Noteholder.
- 7.6 Within five Business Days of redeeming any Notes for cash the Issuer shall send to the Noteholder, at its address specified in the Register and free of consideration, a replacement Certificate in respect of the balance, if any, of the Notes held by that Noteholder.

## 8. REDEMPTIONS BY ISSUES OF ISSUER SHARES

- 8.1 Should the Metrofile C Loan be repaid by the issue of Shares in Newco, as contemplated in the Common Terms Agreement, the Issuer shall forthwith compulsorily redeem all outstanding Notes by issuing Issuer Shares to Noteholders in accordance with clauses 8.3 and 8.4.
- 8.2 If, at the Final Repayment Date, any Notes have not been redeemed, the Issuer shall, with effect from the Final Repayment Date, redeem all such outstanding Notes by issuing Issuer Shares to Noteholders in accordance with clauses 8.3 and 8.4.
- 8.3 If the Issuer becomes obliged to redeem Notes by the issue of Issuer Shares, the Issuer shall send to the Noteholder, at the address of that Noteholder specified in the Register, a Redemption Notice:
- 8.3.1 advising the Noteholder of the redemption of Notes by the issue of Issuer Shares;
- 8.3.2 specifying the Redemption Date of such Notes. In the circumstances contemplated in clause 8.1 such date will be the date on which the Metrofile C facility was repaid by the issue of Shares in Newco. In the circumstances contemplated in clause 8.2 such date will be the Final Redemption Date; and
- 8.3.3 calling on the Noteholder to surrender its existing Certificate in order to receive the Issuer Shares due to it.
- 8.4 The number of Issuer Shares to be issued to a Noteholder pursuant to a redemption effected in terms of clause 8.1 or 8.2 shall be determined by applying the formula:

$$\text{MCS} = \text{MCO}/\text{MVPMS}$$

where:

MCS = the number of Issuer Shares which will be issued to a converting Noteholder (which will be issued as fully paid-up Shares in the share capital of the Issuer), with any fraction resulting from the above calculation being rounded up to the nearest whole number of Shares;

MCO = the nominal value of all Notes held by the Noteholder and not redeemed, plus any accrued and unpaid Interest thereon (including capitalised Interest);

MVPMS = means:

(a) if the Issuer is listed on the JSE Securities Exchange South Africa, the volume weighted average price of an Issuer Share for the 3 (three) month period preceding the relevant Redemption Date, as quoted on the JSE Securities Exchange South Africa; or

(b) if the Issuer is not listed on the JSE Securities Exchange South Africa, an average (as determined by the Facility Agent) of the services sector price: earning multiple over the 3 (three) month period preceding the relevant Redemption Date less 10% (ten percent) and multiplied by the consolidated earnings of the Issuer divided by the total issued Shares in the share capital of the Issuer.

- 8.5 Any stamp duty, marketable securities tax and/or uncertificated securities tax payable in respect of the issue of any Shares, and any tax payable on the creation of such Shares, shall be payable by the Issuer. If the Issuer fails to comply with this obligation to pay such stamp duty, marketable securities tax, uncertificated securities tax or other tax payable on the creation of the Shares, the Facility Agent or the relevant Noteholder may instead pay such amounts and all moneys expended by the Facility Agent or the relevant Noteholder in doing so shall be reimbursed by the Issuer to the Facility Agent or the relevant Noteholder, as the case may be, on demand and shall carry interest at the Default Rate from the date of payment by the Facility Agent or the relevant Noteholder, as the case may be, until reimbursed by the Issuer.
- 8.6 The Issuer and the relevant Noteholder will execute such documents and do all such acts and things and give all such assistance and assurances as may be required by the Facility Agent or under applicable law to give effect to the conversion of the Outstandings (or any part thereof) into Issuer Shares as contemplated by this clause 8.
- 8.7 The Facility Agent shall be entitled to require the Issuer to issue the Issuer Shares to the relevant Noteholders in renounceable form.

## 9. **PAYMENT**

- 9.1 All cash payments in respect of the Notes shall be paid by or on behalf of the Issuer in Rand in the Republic of South Africa.
- 9.2 All monies payable on or in respect of the Notes shall be paid by electronic funds transfer to the account of the Trustee, who shall as soon as is reasonably possible pay such monies by electronic funds transfer to the account of the Noteholder specified in the Register.

## 10. **TAXATION**

All payments in respect of the Notes will be made without withholding or deduction for or on account of taxes levied in the Republic of South Africa. In the event that withholding tax or such other deduction is required by law, then the Issuer will make such payments after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Such withholding or deduction (if any) will constitute a payment of Interest or principal, as the case may be, on the Notes to the Noteholders. The Issuer shall not be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 11. **CERTIFICATE**

- 11.1 The Issuer shall, within seven days after payment of the Issue Price in full and at no cost to the Noteholders, issue Certificates.
- 11.2 The Certificates shall be issued in accordance with the provisions of section 126 of the Companies Act.
- 11.3 If any Certificate is worn out or defaced then, upon its presentation to the Issuer, the Issuer may cancel that Certificate and issue a new Certificate in its place.
- 11.4 If a Certificate is lost or destroyed then, upon proof thereof to the satisfaction of the Issuer, a new Certificate in lieu thereof may be issued to the person entitled to the lost or destroyed Certificate, provided that the Noteholder shall provide the Issuer with an indemnity and pay any out-of-pocket expenses for investigating the loss. The person providing the indemnity and the form of the indemnity shall be to the satisfaction of the Issuer.

## 12. TRANSFERS OF NOTES

- 12.1 The Notes are transferable, subject to the provisions of clause 25 (Change of Party) of the Common Terms Agreement. An Instrument of Transfer shall be executed in respect of every transfer.
- 12.2 The Instrument of Transfer of any Notes shall be executed by both the transferor and the transferee and the transferor shall be deemed to remain the holder of the Notes until the date on which:
- 12.2.1 the name of the transferee is entered in the Register in respect thereof; and
- 12.2.2 the date on which the conditions set out in clause 25.3 (Conditions of Assignment and Transfer) of the Common Terms Agreement, read with clause 25.5 (Procedure for Transfer) of the Common Terms Agreement, have been met.
- 12.3 The Issuer may decline to recognise any Instrument of Transfer unless the Instrument of Transfer is accompanied by the Certificate of the Notes to which it relates and such other evidence as the Issuer may reasonably require to show the right of the transferor to make the transfer.
- 12.4 The executor of the estate of a deceased Noteholder shall be the only person recognised by the Issuer as having any title to the Notes held by such deceased Noteholder. In the case of a Note registered in the names of two or more holders, the survivors or survivor, or the executor of the deceased survivor shall be the only persons recognised by the issuer as having any title to the Notes held by such Noteholders.
- 12.5 Any person becoming entitled to a Note in consequence of the death or insolvency of a Noteholder shall, upon such evidence being produced as may from time to time be required by the Issuer, have the right, either to be registered as a Noteholder in respect of the Note or instead of being registered himself, to make such transfer of the Note as the deceased or insolvent could have made, but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Note by the deceased or insolvent before their death or insolvency.
- 12.6 The parent or guardian of a minor and the *curator bonis* of a lunatic Noteholder and any person becoming entitled to Notes in consequence of the death or insolvency of any Noteholder or the marriage of any female Noteholder or by any lawful means, other than by transfer in accordance with these terms and conditions may, upon producing such evidence as sustains the character in which he proposes to act under this clause, or of his title, as the Issuer thinks sufficient, transfer those Notes to himself or any other person subject to the clauses as to transfer set out above.
- 12.7 A person becoming entitled to a Note by reason of the death or insolvency of the Noteholder shall be entitled to the same advantages to which he would be entitled if he were the registered Noteholder.
- 12.8 A person who submits proof of his appointment as the executor, administrator, trustee, curator or guardian in respect of a deceased Noteholder or the estate of a Noteholder whose estate has been sequestrated, or who is otherwise under a disability or as the liquidator of any body corporate which is a Noteholder shall be entered in the Register *nomine officii*, and shall thereafter, for all purposes, be deemed to be a Noteholder.

## 13. SUBORDINATION

Notwithstanding anything to the contrary contained in any Finance Document, it is recorded that each of the Noteholders have, in terms of, and subject to, clause 29 (Subordination) of the Common Terms Agreement and for the sole purpose of restoring factual solvency to the relevant Borrower, undertaken in favour of any third party creditors (not being any Finance Party or any Shareholders) of the Issuer, that any liquidated claims of such third party creditors shall rank in priority to the Outstandings of the Noteholders *pro rata* to their Outstandings under the Notes.

## 14. MISCELLANEOUS MATTERS

### 14.1 **Dispute resolution**

Any dispute arising out of or in connection with these Terms and Conditions including, without limitation, any dispute concerning:

14.1.1 the existence of these Terms and Conditions apart from this clause;

14.1.2 the interpretation and effect of these Terms and Conditions;

14.1.3 the parties' respective rights or obligations under these Terms and Conditions;

14.1.4 the rectification of these Terms and Conditions; and

14.1.5 any breach, termination or cancellation of these Terms and Conditions,

shall be referred for summary determination, to an independent attorney of not less than 10 years' standing agreed by the parties or, failing agreement within seven days, appointed by the President of the Law Society of the Northern Provinces. Such independent attorney shall act as an expert and not as an arbitrator and such determination shall be binding on the parties in the absence of manifest error.

### 14.2 **Entire contract**

These Terms and Conditions, read with the scheme and the other agreements mentioned herein, contain all the terms and conditions applicable to the Notes.

### 14.3 **Amendment of these Terms and Conditions**

These Terms and Conditions may only be amended by agreement of the Issuer and the Trustee. The Trustee shall not agree to any such amendment unless authorised to do so by a Special Resolution (as defined in the Trust Deed).

### 14.4 **No representations**

Neither the Issuer nor the Noteholder may rely on any representation which allegedly induced that party to enter into these Terms and Conditions, unless the representation is recorded in these Terms and Conditions.

### 14.5 **Applicable law**

These Terms and Conditions shall be interpreted and implemented in accordance with the law of the Republic of South Africa.

### 14.6 **Jurisdiction**

The parties consent to the non-exclusive jurisdiction of the High Court of South Africa (Witwatersrand Local Division).

### 14.7 **Illegality**

If any term or provision of these Terms and Conditions is held to be invalid, unenforceable or illegal, then the remaining terms and provisions of these Terms and Conditions shall be severable therefrom and shall continue in full force and effect unless such invalidity, unenforceability or illegality goes to the root of these Terms and Conditions.

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## EXPLANATORY STATEMENT

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### 1. THE PURPOSE OF THIS DOCUMENT

This document is the explanatory statement in terms of section 312(1) of the Companies Act and its purpose is to explain, *inter alia*, the effect on scheme creditors in the event of the scheme being approved. All creditors receiving this document must accept that they are regarded by MGX as scheme creditors for the purpose of the scheme.

This document also explains:

- how scheme creditors will be informed of the fulfilment of the conditions precedent;
- what must be done to enable scheme creditors to vote at the scheme meeting; and
- what scheme creditors are required to do in order to obtain and enforce the rights created by the scheme and how those rights may be lost through inaction.

This explanatory statement should be read in conjunction with the scheme and the other documents contained in the circular of which this explanatory statement forms part.

### 2. THE NATURE OF A SCHEME UNDER SECTION 311 OF THE COMPANIES ACT

The Companies Act permits a company to apply to the Court for leave to convene a meeting of its creditors for the purpose of considering the scheme between the company and the creditors concerned with regard to the claims of those creditors against the company. The meeting of creditors is referred to as a “scheme meeting”.

The scheme creditors are entitled to be present or be represented, and to vote, at the scheme meeting. If the scheme submitted to the creditors is approved at the scheme meeting by the required majority of creditors (the required majority is explained in Chapter 5 of the scheme), application is made to the Court for the sanctioning of the scheme. Upon registration by the Registrar of the Order of Court sanctioning the scheme, the scheme becomes binding on all scheme creditors and their rights against the company concerned then become regulated by the terms of the scheme. After sanctioning of the scheme, scheme creditors will only be entitled to receive the scheme consideration in relation to any claims they may have against MGX.

The scheme to which this document relates is one proposed under section 311 of the Companies Act. Subject to the approval of the scheme creditors, to be sought at the scheme meeting, the scheme will, upon registration of the Order of Court, have the effect outlined above.

**Should the scheme be approved by the scheme creditors and thereafter be sanctioned by the Court, scheme creditors are required to take the steps outlined in the scheme and explained below which, in the case of some of the scheme creditors, may include the requirement that their claims be tendered or proved to the Receiver. Failure to do so may result in the deemed abandonment by a scheme creditor of its claim.**

### 3. BACKGROUND OF MGX AND RATIONALE FOR THE SCHEME

As a result of poor trading results for the financial year ended 30 June 2002, MGX, in December 2002, embarked on a recovery plan in terms of which the company decided to:

- dispose of certain operating subsidiaries and commercial properties and use the proceeds of these disposals to reduce the debt of the company;
- refinance the debt of the company to a position which could be sustained by the remaining operations in the MGX Group;
- create a structure for the capitalisation of the remaining debt of the company, in terms of which the debt will be repaid over a five-year period and thereby avoiding an immediate dilution to MGX shareholders, creating an opportunity for MGX to repay the debt; and

- create a smaller group which could be rebuilt, after the refinancing of the company's debt, into a profitable business.

As has been announced previously on SENS and in the press, pursuant to the recovery plan, MGX has disposed of:

- the business of Enterprise Solutions;
- the businesses of BCS and BCS Cape;
- MGX's 100% interests in Storage Solutions and Professional Services;
- MGX's 95% interest in Software Futures;
- MGX's 50% interest in Drive Control;
- MGX's 100% interest in enTechnologies; and
- MGX's 100% interest in Faerie Glen.

MGX has reached an agreement, subject to certain conditions precedent, for the sale of its 100% interest in Dion Business Systems and is negotiating the sale of its 100% interest in MGX Property and the sale of its 80% interest in Didata UK.

Should any of the above transactions not be concluded, the debt anticipated to be extinguished from the proceeds of such disposals shall be accommodated within Main Street, and similarly, the assets which have not been disposed of shall be available as security for MGX's obligations.

After the disposals, discussed above, have been implemented, the remaining operating businesses in the MGX Group will be the Metrofile Division, which is involved in document and records management.

The total purchase consideration received by MGX will be used to reduce its debt with the secured creditors and other non-trade creditors from approximately R600 million to approximately R410 million.

The board is of the opinion that, despite being a sound and profitable business, the future cash flows from the Metrofile Division alone will not be sufficient to sustain the payments required to fund the remaining debt of approximately R410 million. MGX has entered into agreements with the MGX Capital Providers in terms of which the remaining debt, after the disposals, will be refinanced on terms that the MGX Group will be able to fund.

The important details of the debt refinancing are set out below:

- MGX will procure the disposal of the assets and liabilities of the Metrofile Division to Main Street, a special purpose vehicle created to facilitate the debt refinancing in terms of section 228 of the Companies Act for a consideration of R305 million;
- Main Street will raise approximately R305 million of debt from certain members of the MGX Capital Providers on the following basis:
  - the Metrofile A facility (approximately R106 million);
  - the Working Capital facility (approximately R10 million);
  - the Metrofile B facility (approximately R112 million); and
  - the Metrofile C facility (approximately R77 million);
- Main Street will raise an additional redeemable convertible interest-bearing loan of R20 million, in the form of the Metrofile B1 facility;
- the Metrofile Division will be voluntarily wound-up by MGX in terms of sections 349 and 350 of the Companies Act and the Metrofile Division will pay an amount of approximately R305 million to MGX in the form of a dividend and the repayment of inter-company loans;
- the disposal of the Metrofile Division will take place under the intra-group provisions of the South African Income Tax Act, 58 of 1962, as amended;
- MGX will settle approximately R305 million of its interest-bearing debt with the funds received from Metrofile Division; and
- within MGX:
  - the scheme creditors will have their claims, compromised in terms of the scheme and will receive the notes; and
  - in addition to the secured creditors described above, certain other secured creditors with claims to the value of approximately R20 million against MGX, will convert their debt into redeemable convertible interest-bearing loans of approximately R20 million, being the MGX B facility.

The Common Terms Agreement which governs the financial restructuring of MGX, is conditional upon the implementation of a scheme of arrangement between MGX and certain of its creditors, other than its secured creditors. MGX had elected to propose the scheme and the ECH creditor scheme as separate schemes of arrangement. By virtue of the provisions of the Common Terms Agreement, the secured creditors are entitled to waive, *inter alia*, the fulfilment of such condition precedent. On Thursday, 11 December 2003, the Court dismissed an application by the company to convene the ECH creditor scheme. The secured creditors have confirmed that, upon the scheme becoming operative, they will waive the said condition precedent to the Common Terms Agreement mentioned in this paragraph, notwithstanding that the ECH creditors scheme was not implemented.

**If MGX is compelled to make the mandatory offer, MGX may incur a liability, on a worse case scenario, in an amount of R30 million if all of the ECH creditors accept the mandatory offer (“the ECH liability”). Notwithstanding this, the secured creditors have indicated that they will proceed with the financial restructuring of the company in the knowledge that the company faces the risk of the ECH liability, if the mandatory offer is made. Scheme creditors are referred to note 17.1 to the audited financial statements of the company, which appear on page 65 of this circular.**

#### 4. THE IMPORTANT TERMS AND CONDITIONS OF THE NOTES

Scheme creditors will receive notes in lieu of cash as the scheme consideration if the scheme is sanctioned. The important terms and conditions of the notes are set out below.

The notes will:

- have a nominal value of R1.00 and will be issued at this nominal value;
- accrue interest at the prime rate plus 3%, which interest will be capitalised on an nacq basis;
- be repayable from the excess cash flows of Main Street once the capital and interest on the Metrofile C facility has been repaid (the Metrofile C facility will be repaid after the Metrofile A facility has been paid to a level of R80 million, and after the Working Capital facility, the Metrofile B facility and the Metrofile B1 facility have been repaid in full);
- have a fourth right of recourse to the security and rank *pari passu* with the rights of the MGX B facility. The security will be held by a debenture trust set up by MGX and will be administered by the debenture trustee for and on behalf of the noteholders on the terms set out in the debenture trust deed, a copy of which is available for inspection as set out in paragraph 13 below;
- be compulsorily convertible into MGX shares:
  - if the secured creditors call for the Metrofile C facility to convert into Main Street shares at any time; or
  - in the event that the notes have not been redeemed for cash within five years of the date of the scheme and the debt refinancing becoming unconditional.

**Scheme creditors should be aware that, in terms of the priority of payments set out in the Common Terms Agreement, noteholders will rank tenth in respect of the payment of interest and eleventh in respect of the payment of capital by MGX, which is after the payment of approximately R325 million owed to secured creditors of MGX and any of its subsidiaries, who have provided the Metrofile facilities.**

In the event that the notes are compulsorily converted into MGX shares, the formula to determine the number of MGX shares to be issued to a holder on a conversion of the notes is the same as for the MGX B facility. This formula is set out in detail in clause 8.4 of Annex “A” to the scheme, which details the terms of the notes. Scheme creditors should be aware that, upon conversion of the notes into MGX shares, MGX may no longer be listed on the JSE and noteholders could end up holding shares in an unlisted company, which shares may be difficult to trade.

#### 5. THE SUBSTANCE OF THE SCHEME

- 5.1 The scheme is directed at the scheme creditors. The scheme creditors are all of the creditors of MGX, other than secured creditors and the ECH creditors, having claims against MGX of whatsoever nature and from whatsoever cause arising, the cause of action in respect of which arose prior to the final date, including claims arising from contract or delict, actual and contingent, disclosed or undisclosed, conditional and unconditional, liquidated and unliquidated and whether or not due for payment.

- 5.2 The effect of the scheme is that, subject to acceptance by the required majority of scheme creditors and the fulfilment of the conditions precedent set out in Chapter 3 of the scheme, all scheme creditors will be paid the scheme consideration in respect of any claim they have against MGX.
- 5.3 Scheme creditors whose claims are not recorded in the books of account and records of the company or who dispute the amount of their claims so recorded will, in the event of the scheme becoming unconditional, be required to prove their claims in the manner outlined in Chapter 6 of the scheme.
- 5.4 It is expected that settlement of proved claims which are due for payment and not subject to dispute will be made to scheme creditors within 60 days of the scheme becoming unconditional. Claims which are not yet due for payment, unquantified or disputed at the final date will be settled by no later than 60 days after the date on which they become due and payable or the condition is fulfilled, as the case may be.

## **6. CONDITIONS PRECEDENT**

The scheme is subject to the fulfilment of the conditions precedent specified in Chapter 3 of the scheme. These conditions precedent are consistent with those normally incorporated in schemes of arrangement of this nature.

Subject to the scheme being approved by creditors approving the scheme with the required majority of scheme creditors, MGX is confident that the scheme will be implemented in accordance with its terms.

The scheme creditors will be informed through publication on SENS and in the press upon the fulfilment of the conditions precedent.

## **7. PROOF OF SCHEME CREDITORS' CLAIMS**

- 7.1 Once the scheme becomes unconditional, scheme creditors will be entitled to receive the scheme consideration. To receive the consideration, creditors must be accepted by the Receiver as scheme creditors.
- 7.2 The scheme creditors reflected in the books of account and records of MGX need not prove their claims unless their claim is rejected by the Receiver.
- 7.3 The scheme creditors with claims rejected or not reflected in the books and accounts of MGX are required to prove their claims within 60 days of receiving notification from the Receiver.
- 7.4 The scheme creditors having conditional claims shall lodge their claims with the Receiver within 60 days of the final date. Once the condition to which the claim is subject is fulfilled the scheme creditors shall be obliged to prove such claim.

## **8. THE CONSEQUENCES OF NON-ACCEPTANCE OF THE SCHEME BY SCHEME CREDITORS**

The advantage of the scheme to scheme creditors is that its adoption and implementation will result in the settlement of the claims of all scheme creditors. The scheme will result in a state of certainty with regard to the future operational and financial position of MGX and the position of the scheme creditors.

Should the scheme creditors not agree to the scheme, the financial implications to scheme creditors are at best uncertain and presently incapable of precise prediction. The reasons for this are the following:

- the Common Terms Agreement concluded by MGX with the MGX Capital Providers is directed at providing MGX with secured facilities in order to enable MGX to repay its secured creditors. The Common Terms Agreement is subject to the scheme becoming unconditional;
- there is no guarantee of payment to scheme creditors in the event of the scheme not being adopted and implemented. In such an event, scheme creditors will be left to pursue their claims against MGX without any assurance of when or the extent to which MGX will be able to effect payment of their claims; and

- scheme creditors are at risk in the event of the scheme not being approved in that the entire refinancing of MGX's debt will not be implemented and the company would then, in all likelihood, be placed in liquidation by the board. If the company is liquidated the board estimates that it is unlikely that the scheme creditors will receive any form of settlement of their claims against MGX as it is not expected that there will be any free residue in the insolvent estate.

In the circumstances, the board is satisfied that the scheme is in the best interests of the scheme creditors and the board recommends the acceptance of the scheme by scheme creditors.

## 9. THE FINANCIAL POSITION OF MGX

At 30 June 2003, the negative net asset value of MGX was R156.988 million. This value was determined on the "going concern" basis by assuming fair value for the assets of MGX.

## 10. DIRECTORS' INTERESTS

At the last practicable date, the directors had interests in the share capital of MGX as set out below.

Directors	Direct Beneficial	Indirect Beneficial	Direct Non-beneficial	Indirect Non-beneficial	Total shares %
Christopher Stefan Seabrooke*	–	25 500	–	51 000	0.11
Anthony Charles Ball*	–	–	–	–	–
Danisa Eileen Baloi*	–	8 000	–	–	0.01
Eduardo Gutierrez-Garcia#	–	–	–	–	–
Stephen Roy Midlane	–	–	–	–	–
Norman John Webster	100 000	–	–	290 000	0.58

### Notes:

\* Non-executive.

# Alternate to Anthony Charles Ball.

No director of MGX has any direct or indirect claim against MGX and accordingly no director is a scheme creditor.

## 11. CREDITORS' SUPPORT

By their signature to the Common Terms Agreement, the following scheme creditors being Citibank, N.A., South African Branch, Eurevest Leasing (Proprietary) Limited and Drive Control Services (Proprietary) Limited, having not less than R48.325 million of unsecured claims against MGX, have indicated their intention to vote in favour of the scheme in respect of their unsecured claims.

## 12. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, collectively and individually, accept full responsibility for the accuracy of the information given in this circular and certify that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement in this circular false or misleading and that they have made all reasonable enquiries to ascertain such facts and, if applicable, that this circular contains all information required by law.

## 13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of MGX on business days during normal business hours for at least two weeks prior to the scheme meeting:

- a copy of the Common Terms Agreement;
- a copy of this circular signed by Christopher Stefan Seabrooke on behalf of the board;

- a copy of the Order;
- a copy of the deed of trust creating the MGX debenture trust deed; and
- copies of all agreements referred to in the notes (contained as Annex “A” to the scheme).

#### 14. **SCHEME MEETING**

The scheme meeting will be at 10:00 on Monday, 19 January 2004 at 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, or to such later time or date as the scheme meeting may be adjourned, at which scheme creditors will be asked to consider and, if deemed fit, approve the scheme with or without modification.

For and on behalf of

#### **MGX HOLDINGS LIMITED**

**Christopher Stefan Seabrooke**

*Non-executive chairperson*

Sandton

17 December 2003

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## IMPORTANT DATES AND TIMES

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2004

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Last day to lodge form of proxy for the scheme meeting by 10:00, on	Thursday, 15 January
The meeting record date at 17:00, on	Thursday, 15 January
The scheme meeting to be held at 10:00, on	Monday, 19 January
Court hearing to sanction the scheme, on	Tuesday, 27 January
Announcements on SENS and in the press notifying scheme creditors of the results of the scheme and the final date of the scheme, on	Thursday, 29 January
Scheme consideration issued, from	Friday, 30 January

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**Notes:**

1. These dates and times are subject to change. Any such change will be published on SENS and in the press.
2. If the date of the scheme meeting is adjourned or postponed, forms of proxy must be received by no later than 48 hours prior to the time of the adjourned or postponed scheme meeting, or must be handed to the chairperson by no later than 10 minutes before the time for commencement of the scheme meeting.

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## **ACTION REQUIRED BY SCHEME CREDITORS**

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### **1. SCHEME MEETINGS**

The meeting of scheme creditors will be held at 10:00 on Monday, 19 January 2004 at 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton. Scheme creditors who are unable to attend the scheme meeting, and wish to be represented thereat, should complete the applicable attached form of proxy (*blue*) and return it to the chairperson of the scheme meeting, Mervyn Taback c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton. Forms of proxy may also be handed to the chairperson of the scheme meeting by no later than 10 minutes before the scheme meeting is due to commence.

### **2. VOTING AT THE SCHEME MEETING**

2.1 For the purpose of voting at the scheme meeting, scheme creditors who are present and represented at the scheme meeting and who are reflected in the books of account and records of MGX as creditors as at the close of business on Thursday, 15 January 2004 (or two business days prior to any adjourned meeting) shall be regarded by the chairperson as scheme creditors in respect of the amounts for which they so appear in the books of account and records of MGX to be creditors on the meeting record date, provided that any such creditor with a claim falling due for payment after the final date shall be regarded by the chairperson as a creditor for an amount equal to the face value of the claim, less 10% per annum of that face value, reckoned from the date on which the scheme meeting is being held, to the due date for payment of such claim.

2.2 Any scheme creditor who is not reflected in the books of account and records of MGX as creditor, or claims to be a scheme creditor for an amount different from that reflected in the books of account and records of MGX, shall be entitled, for the purpose of voting at the scheme meeting at any time prior to the meeting record date, to prove such claim to the chairperson in accordance with Chapter 6 of the scheme, *mutatis mutandis*. The chairperson may reject or accept such creditor as a scheme creditor in his sole and absolute discretion and the chairperson's determination in this regard shall be final and binding upon such creditor and that creditor's right to vote at the scheme meeting.

2.3 Subsidiaries of MGX that are scheme creditors have undertaken not to vote at the scheme meeting and their claims will accordingly not be taken into account in determining whether the scheme has been approved by the requisite majority of scheme creditors.

### **3. ATTENDANCE AT COURT**

Scheme creditors are entitled to attend or be represented by Counsel at the Court hearing for the sanctioning of the scheme to be held at 10:00 or as soon thereafter that as Counsel may be heard on Tuesday, 27 January 2004 in Court, which is located in the High Court Building, von Brandis Square, corner Pritchard and von Brandis Streets, Johannesburg.

### **4. PARTICIPATION IN SCHEME BY SCHEME CREDITORS**

4.1 Scheme creditors must prove their claims with the Receiver appointed for purposes of the scheme, in order to claim the scheme consideration, in the manner provided for in Chapter 6 of the scheme.

4.2 If the scheme becomes operative, scheme creditors who have proved their claims in the manner provided for in Chapter 6 of the scheme, and/or whose claims have been accepted by the Receiver, will receive the scheme consideration as and when their relevant claims become due and payable, or as determined by the Receiver pursuant to the scheme, on or about the final date.

4.3 Notwithstanding 4.1 and 4.2 above, the Receiver shall have the right to accept claims of scheme creditors and notwithstanding the fact that scheme creditors have not specifically proved scheme claims. The Receiver shall be entitled to procure the payment of the scheme consideration in respect of scheme creditors, the ownership of whose claims the Receiver has so accepted without specific proof having been lodged.

**5. IF SCHEME CREDITORS HAVE SOLD THEIR CLAIMS**

If scheme creditors have disposed of their claims, this document should be handed to the purchaser of such claims or the broker, banker or other agent who disposed of their claims for them.

If scheme creditors are in any doubt as to the action they should take, they should consult such broker, attorney, accountant, banker or other professional adviser immediately.

## IMPORTANT AUDITED FINANCIAL INFORMATION OF MGX

### Income statements for the year ended 30 June 2003

COMPANY		Notes	GROUP	
2002 R'000	2003 R'000		2003 R'000	2002 R'000
		Revenue	<b>1 251 051</b>	1 487 078
		Cost of sales	<b>716 561</b>	810 774
33 417	<b>1 556</b>	Gross profit	<b>534 490</b>	676 304
		Other income	<b>4 892</b>	67 351
33 417	<b>1 556</b>	Gross profit before operating expenditure	<b>539 382</b>	743 655
		Distribution costs	<b>29 369</b>	6 904
		Staff costs	<b>386 344</b>	348 211
8 239	<b>6 659</b>	Foreign exchange losses/(gains)	<b>9 169</b>	(10 784)
		Administrative and other operating costs	<b>118 011</b>	171 068
25 178	<b>(5 103)</b>	Operating (loss)/income before depreciation, amortisation, exceptional items and finance costs	<b>(3 511)</b>	228 256
		Depreciation and trademark amortisation	<b>57 829</b>	42 863
25 178	<b>(5 103)</b>	Operating (loss)/income before goodwill amortisation, exceptional items and finance costs	<b>(61 340)</b>	185 393
		Goodwill amortisation	<b>69 465</b>	79 420
25 178	<b>(5 103)</b>	Operating (loss)/income before exceptional items and finance costs	(130 805)	105 973
68 667	<b>588 155</b>	Goodwill impairment	331 269	3 475
		Exceptional items	47 343	22 701
(43 489)	<b>(593 258)</b>	Operating (loss)/income before finance costs	<b>(509 417)</b>	79 797
37 811	<b>59 358</b>	Finance costs	<b>87 550</b>	55 660
(8 742)	<b>(5 322)</b>	Finance income	<b>(8 863)</b>	(9 818)
(72 558)	<b>(647 294)</b>	(Loss)/Income before taxation	<b>(588 104)</b>	33 955
52	<b>351</b>	Taxation – current	<b>50 364</b>	29 962
(4 669)	<b>6 306</b>	– deferred	<b>65 265</b>	3 842
(67 941)	<b>(653 951)</b>	(Loss)/Income after taxation	<b>(703 733)</b>	151
		Share of associate's income		2 020
		Outside shareholders' share of losses	<b>1 657</b>	6 184
(67 941)	<b>(653 951)</b>	Attributable (loss)/earnings	<b>(702 076)</b>	8 355
		Number of ordinary shares in issue ('000)	<b>74 077</b>	74 077
		Number of ordinary shares held in treasury ('000)	<b>6 877</b>	6 840
		Number of ordinary shares excluded ('000)	<b>602</b>	612
		Number of ordinary shares in issue after deducting treasury and other excluded shares ('000)	<b>66 598</b>	66 626
		Weighted average number of ordinary shares in issue ('000)	<b>66 589</b>	66 563
		Headline (loss)/earnings per ordinary share (cents)	<b>(383.8)</b>	145.3
		Fully diluted headline (loss)/earnings per ordinary share (cents)	<b>(383.8)</b>	144.7
		(Loss)/earnings per ordinary share (cents)	<b>(1 054.3)</b>	12.6
		Fully diluted (loss)/earnings per ordinary share (cents)	<b>(1 054.3)</b>	12.5

## Balance sheets

at 30 June 2003

COMPANY			GROUP	
2002	2003		2003	2002
R'000	R'000	Notes	R'000	R'000
<b>ASSETS</b>				
717 007	<b>245 519</b>	<b>Non-current assets</b>	<b>435 222</b>	799 058
8 195	<b>245 519</b>	Property, plant and equipment	<b>333 291</b>	319 537
702 912		Financial assets	<b>16 700</b>	49 517
		Goodwill	<b>84 982</b>	417 692
		Trademarks	<b>103</b>	1 796
5 900		Long-term receivables	<b>146</b>	10 516
6 306		<b>Deferred taxation asset</b>	<b>2 931</b>	71 728
15 299	<b>8 859</b>	<b>Current assets</b>	<b>359 831</b>	503 193
	<b>8 746</b>	Inventories	<b>44 025</b>	68 450
15 281		Trade receivables	<b>181 420</b>	308 328
		Other receivables	<b>46 516</b>	66 337
		Taxation	<b>3 639</b>	
18		Bank balances	<b>84 231</b>	60 078
738 612	<b>254 378</b>	Total assets	<b>797 984</b>	1 373 979
<b>EQUITY AND LIABILITIES</b>				
505 638	<b>(156 988)</b>	<b>Equity capital and reserves</b>	<b>(208 857)</b>	510 557
504 936	<b>497 953</b>	Ordinary share capital and share premium	<b>196 070</b>	202 201
702	<b>(654 941)</b>	Non-distributable reserves	<b>4 667</b>	9 056
505 638	<b>(156 988)</b>	(Accumulated losses)/distributable reserves	<b>(441 428)</b>	262 509
		Ordinary shareholders' (deficit)/interest	<b>(240 691)</b>	473 766
		Outside shareholders' interest	<b>3 401</b>	8 358
		Outside shareholders' preference shares in subsidiary	<b>28 433</b>	28 433
		<b>Deferred taxation liability</b>	<b>738</b>	2 484
71 504	<b>52 469</b>	<b>Non-current liabilities</b>	<b>169 075</b>	164 305
21 504	<b>52 469</b>	Non-interest-bearing liabilities		27 674
50 000		Interest-bearing liabilities	<b>169 075</b>	136 631
161 470	<b>358 897</b>	Current liabilities	<b>837 028</b>	696 633
6 792	<b>7 276</b>	Trade payables	<b>102 178</b>	147 925
(350)		Other payables and provisions	<b>124 979</b>	150 666
		Deferred revenue	<b>53 935</b>	58 250
		Taxation	<b>54 188</b>	7 651
		Bank overdrafts – MGX Banking Consortium	<b>80 000</b>	
76 254	<b>71 710</b>	Bank overdrafts – Other	<b>81 082</b>	97 435
5 140	<b>68 609</b>	Non-interest-bearing liabilities	<b>73 477</b>	5 140
73 634	<b>131 302</b>	Interest-bearing liabilities	<b>267 189</b>	229 566
738 612	<b>254 378</b>	Total equity and liabilities	<b>797 984</b>	1 373 979
Net (liability)/asset per ordinary share (cents)			<b>(361.4)</b>	711.1
Tangible net (liability)/asset per ordinary share (cents)			<b>(489.2)</b>	81.5

**Statements of changes in equity  
for the year ended 30 June 2003**

	Share Capital R'000	Share Premium R'000	Non-distributable Reserves R'000	(Accumulated Losses)/ Distributable Reserves R'000	Total R'000
<b>GROUP</b>					
Balance at 30 June 2001	410	200 987	736	254 154	456 287
Attributable earnings				8 355	8 355
Impairment of share incentive shares	(6)	(3 656)			(3 662)
Offset of treasury shares	3	4 463			4 466
Revaluation of associate in subsidiary			6 834		6 834
Vendor loan released in subsidiary			7 600		7 600
Foreign currency translation reserve			(6 114)		(6 114)
Balance at 30 June 2002	407	201 794	9 056	262 509	473 766
Attributable loss				(702 076)	(702 076)
AC 133 transitional adjustment				(1 861)	(1 861)
Impairment of share incentive shares	2	(6 985)			(6 983)
Offset of treasury shares		852			852
Foreign currency translation reserve			(4 389)		(4 389)
Balance at 30 June 2003	<b>409</b>	<b>195 661</b>	<b>4 667</b>	<b>(441 428)</b>	<b>(240 691)</b>
<b>COMPANY</b>					
Balance at 30 June 2001	456	508 142		68 643	577 241
Attributable loss				(67 941)	(67 941)
Impairment of share incentive shares	(6)	(3 656)			(3 662)
Balance at 30 June 2002	450	504 486		702	505 638
Attributable loss				(653 951)	(653 951)
Impairment of share incentive shares	2	(6 985)			(6 983)
Correcting fundamental error				(1 692)	(1 692)
Balance at 30 June 2003	<b>452</b>	<b>497 501</b>		<b>(654 941)</b>	<b>(156 988)</b>

**Cash flow statements**  
for the year ended 30 June 2003

COMPANY			GROUP	
2002	2003		2003	2002
R'000	R'000	Notes	R'000	R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
	<b>4 841</b>	Cash receipts from customers	<b>1 365 728</b>	1 482 270
6 347	<b>(16 671)</b>	Cash paid to suppliers and employees	<b>(1 285 833)</b>	(1 353 243)
6 347	<b>(11 830)</b>	Cash generated from/(utilised in) operations	<b>79 895</b>	129 027
(29 069)	<b>(54 036)</b>	Net finance costs	<b>(78 687)</b>	(45 842)
(50)		Normal taxation paid	<b>(7 288)</b>	(34 112)
(22 772)	<b>(65 866)</b>	Net cash (outflow)/inflow from operating activities	<b>(6 080)</b>	49 073
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
		Additions to property, plant and equipment	<b>(43 322)</b>	(57 722)
		Replacement of property, plant and equipment	<b>(37 354)</b>	(111 129)
		Proceeds from sale of property, plant and equipment	<b>9 419</b>	11 637
(5 873)		Increase in other investments	<b>(10 400)</b>	(11 847)
(39 562)	<b>109 028</b>	(Increase)/decrease in loans due from group companies		
(47 485)		Acquisitions of subsidiaries net of cash acquired	<b>(23 883)</b>	(36 790)
591	<b>2 272</b>	Proceeds on disposal of financial assets	<b>9 548</b>	591
28 606		Adjustment to CCH purchase price		28 606
6 100	<b>5 900</b>	Long-term receivables raised/(repaid)	<b>10 370</b>	(268)
399		Decrease in amount due from group company debtors		
(57 224)	<b>117 200</b>	Net cash (outflow)/inflow from investing activities	<b>(85 622)</b>	(176 922)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
	<b>(68 453)</b>	Repayment of long-term liabilities	<b>(141 844)</b>	
	<b>(165 656)</b>	Advances to group companies		
136 030	<b>107 414</b>	Long-term liability raised	<b>192 242</b>	135 750
		Funds introduced by minorities		28 433
136 030	<b>(126 695)</b>	Net cash inflow/(outflow) from financing activities	<b>50 398</b>	164 183
56 034	<b>(75 361)</b>	Net (decrease)/increase in cash and cash equivalents	<b>(41 304)</b>	36 334
(132 270)	<b>(76 236)</b>	Cash and cash equivalents at the beginning of the year	<b>(37 357)</b>	(73 648)
		Translation difference on opening cash position	<b>1 810</b>	(43)
(76 236)	<b>(151 597)</b>	Cash and cash equivalents at the end of the year	<b>(76 851)</b>	(37 357)
18	<b>113</b>	Bank balances	<b>84 231</b>	60 078
(76 254)	<b>(80 000)</b>	Bank overdrafts – MGX Banking Consortium	<b>(80 000)</b>	
	<b>(71 710)</b>	Bank overdrafts – Other	<b>(81 082)</b>	(97 435)

## Notes to the annual financial statements

for the year ended 30 June 2003

### 1. ACCOUNTING POLICIES

The financial statements are prepared on the historical cost basis, except for the revaluation of certain financial instruments, and incorporate the following principal accounting policies which are consistent with those of the previous period, except for the following:

During the year, the company changed its accounting policy with respect to the treatment of financial instruments in order to conform with the new statement on the recognition and measurement of financial instruments (AC 133).

These policies comply in all material respects with South African statements of Generally Accepted Accounting Practice.

#### Basis of consolidation

##### Subsidiaries

The consolidated financial statements incorporate those of the company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition and up to the effective dates of disposal.

Control is achieved where the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefit from its activities.

Differences between the consideration paid for subsidiaries acquired and the fair value of their net assets at dates of acquisition are expressed as goodwill on acquisition of subsidiaries.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

##### Joint ventures

Joint ventures are those entities in which the group exercises joint control and holds a long-term equity interest and are not subsidiaries.

Joint ventures are accounted for on the proportionate consolidation method. The group's share of assets, liabilities, income, expenses and cash flows of joint ventures are included on a line-by-line basis in the consolidated annual financial statements.

Where the group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the group's interest in the joint venture.

Any differences between the cost of acquisition and the group's share of the net identifiable assets at acquisition, fairly valued, are expressed as goodwill on acquisition of the joint venture.

##### Associates

Associated companies are those entities which are not subsidiaries or joint ventures, in which the group exercises significant influence, through participation in the financial and operating policy decisions of the investee.

Associated companies are accounted for on the equity method using their most recently published financial statements. Equity accounted income which is included in the respective carrying values of the investments, represent the group's proportionate share of the associated companies' retained income after accounting for dividends payable by those associates.

Any differences between the cost of acquisition and the group's share of the net identifiable assets at acquisition, fairly valued, are expressed as goodwill on acquisition of associate and amortised in terms of the policy for goodwill.

## Notes to the annual financial statements (continued)

for the year ended 30 June 2003

Translation of financial statements prepared in foreign currencies

Balance sheets of consolidated foreign subsidiaries are translated into rand at rates of exchange on balance sheet date. The related income and expenses items are translated at the average rate of exchange for the financial year.

Aggregated gains and losses on the translation of assets and liabilities are taken directly to non-distributable reserves and recognised as income or as expenses in the period in which the operation is disposed of.

Foreign currency gains and losses incurred by foreign subsidiaries are included in operating income.

In translating the financial statements of foreign subsidiaries, consideration is given to the impact of local inflation rates. None of the territories in which the group operates is presently regarded as hyperinflationary.

### Property, plant and equipment

Property (other than investment property), plant and equipment are valued at cost and are depreciated on the straight-line basis, at rates considered appropriate to their estimated useful lives as follows:

	Years		Years
Equipment	3 – 5	Vehicles	4
Furniture	10	Racking	15
Plant	5	Owner-occupied buildings	50

Where a permanent diminution in value or impairment of an asset is identified, the deficit is charged to the income statement.

### Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in net profit or loss for the period in which they arise.

### Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets acquired in terms of finance lease agreements are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of finance charges, is included in the balance sheet as a finance lease obligation.

Finance lease assets are depreciated on the same basis as owned assets (owned non-current assets).

Finance charges are charged to the income statement as they become due and payable. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its useful economic life, a period generally not exceeding 20 years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet.

Negative goodwill, which represents the excess of the group's interest in the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition, is eliminated proportionately against the fair values of the non-monetary assets acquired. Any amount in excess of the fair values of the non-monetary assets acquired is treated as deferred income and recognised as income on a straight-line basis over a period generally not exceeding five years.

## **Notes to the annual financial statements (continued)**

for the year ended 30 June 2003

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill or negative goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on the acquisition of the CCH subsidiaries is being amortised over a period of seven years. The carrying amount of the goodwill will be reviewed for impairment at each balance sheet date.

Where a permanent diminution in the value of goodwill is identified, the deficit is charged to the income statement.

### **Trademarks**

Trademarks are measured initially at cost and amortised on a straight-line basis over their estimated useful lives, which on average are three to five years.

### **Impairment of assets**

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

### **Inventories**

Inventories, comprising merchandise, maintenance components and consumable stores, are valued at the lower of cost and net realisable value, determined on an average cost basis. Redundant and slow-moving inventory items are identified and written down to their estimated economic or realisable value.

### **Taxation**

The charge for current tax is the amount of income taxes payable in respect of the taxable profit (tax loss) for the current year. It is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided using the balance sheet liability method.

Deferred tax liabilities are recognised for all temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities which affect neither the tax profit nor the accounting profit at the time of the transaction.

### **Provisions**

Provisions are recognised when the group has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

### **Financial instruments**

Financial assets and financial liabilities are recognised on the group's balance sheet when the group has become a party to contractual provisions of the instruments.

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, trade creditors and borrowings. These instruments are generally carried at their estimated fair value.

Trade receivables and payables are stated at their nominal value. Trade receivables are reduced by appropriate allowances for estimated irrecoverable amounts.

## **Notes to the annual financial statements (continued)**

for the year ended 30 June 2003

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue cost of the instruments to the extent that they are not settled in the period in which they arise.

Derivative financial instruments, principally forward foreign exchange contracts, are used by the group in its management of financial risks. The risks being hedged are exchange losses due to unfavourable movements between the rand and the foreign currency. Gains and losses arising from the cash flow hedges are recognised directly in equity, while gains and losses arising from fair value hedges are recognised in net profit or loss. Gains and losses arising from the remeasurement to fair value of financial assets held for trading are recognised in net profit or loss.

Gains and losses arising from changes in the fair value of available-for-sale financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period.

“Regular way” purchases of all financial assets are accounted for at trade date.

### **Revenue**

Revenue, which excludes value-added tax and transactions between group companies, is recognised as follows:

#### Sale of goods

Revenue from the sale of goods is recognised when the enterprise has transferred to the buyer the significant risks and rewards of ownership of the goods; the enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the enterprise; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Maintenance contracts and services rendered

Revenue from maintenance contracts and services rendered is recognised as the maintenance or service is performed.

#### Rental income

Revenue from rental income is recognised on a time basis in accordance with the agreement.

#### Cost of sales

Cost of sales consists of the cost of inventories sold during the year including related overhead costs.

#### Exceptional items

Exceptional items are material items of income and expense within operating income whose size, nature or incidence is relevant to explain the performance of the group for the year.

### **Translation of foreign currencies**

All foreign currency transactions are translated at the rates ruling on the dates of the transactions. The related monetary assets and liabilities at the year-end are translated at the rates ruling at the balance sheet date.

Where forward exchange contracts have been entered into to reduce the group's risk to foreign exchange fluctuations, contracts are revalued to market forward exchange rates ruling at the balance sheet date.

### **Earnings per share**

The calculation of earnings per share is based on earnings attributable to ordinary shareholders after all exceptional items and the weighted average number of ordinary shares in issue during the financial year.

## **Notes to the annual financial statements (continued)**

for the year ended 30 June 2003

### **Retirement benefit costs**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out every three years. Actuarial gains and losses which exceed 10% of the greater of the present value of the group's pension obligations and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### **Research and development costs**

Research costs are recognised as an expense in the period in which they are incurred.

Expenditure on development is charged to income in the year in which it is incurred except where a clearly-defined project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are capitalised as an intangible asset and amortised on a straight-line basis over the life of the project from the date of commencement of commercial operation, which is on average five years.

### **Cash flows**

For the purposes of the cash flow statement, cash includes cash on hand, deposits held on call with banks, investments in money market instruments and bank overdrafts.

### **Comparative figures**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

COMPANY		GROUP	
2002 R'000	2003 R'000	2003 R'000	2002 R'000
<b>2. OPERATING (LOSS)/INCOME BEFORE EXCEPTIONAL ITEMS AND FINANCE COSTS</b>			
Operating (loss)/income before exceptional items and finance costs is stated after accounting for the following:			
60	<b>100</b>	Auditors' remuneration	4 882 3 278
60	<b>100</b>	– Current year - audit fee	3 734 3 023
		– other services	839 332
		– Prior year underprovision/(overprovision)	309 (77)
		Directors' emoluments for managerial services paid by subsidiaries	11 017 7 748
		Executive directors	9 554 6 465
		– Managerial services	9 554 6 465
		Non-executive directors	1 463 1 283
		– Services as directors	420 135
		– Managerial services	1 043 1 148
	<b>2 069</b>	Foreign exchange losses/(gains)	9 169 (10 784)
		Depreciation	56 199 42 235
		Trademark amortisation	1 630 628
		Loss on disposal of property, plant and equipment	4 139 4 997
313	<b>25</b>	Managerial, secretarial and technical fees	5 097 3 156
		Operating lease charges	90 228 66 947
		Plant, furniture and equipment	52 718 26 807
		Premises	34 180 36 273
		Motor vehicles	3 330 3 867
		Post retirement benefit expenses	8 334 11 555
		Research and development costs	1 161 6 448
<b>3. EXCEPTIONAL ITEMS</b>			
(105)	<b>1 790</b>	Loss/(profit) on disposal of investments	4 031
		Impairment of property, plant and equipment	22 831
6 663	<b>420 092</b>	Impairment of investments	11 280 1 341
62 109	<b>160 273</b>	Impairment of loans receivable	14 926 1 521
		Reversal of CCH fair value adjustment	(16 007)
		Net reversal of provision for legal claims	(2 861)
	<b>6 000</b>	Share of reversal of prior year management fee to joint venture	3 000
		Provision for liability in respect of BCS subscribing shareholders	4 868
		Prior year adjustment in subsidiary	5 275
		e-Business loss	15 112
		Non-recurring closure costs of discontinued operations	3 680
		Reorganisation costs on acquisition	1 047
68 667	<b>588 155</b>		47 343 22 701

COMPANY		GROUP	
2002	2003	2003	2002
R'000	R'000	R'000	R'000
<b>4. PRIOR YEAR ADJUSTMENTS</b>			
<b>4.1 Change in accounting policy</b>			
702		Distributable reserves at 30 June 2002, as previously stated	262 509
(1 692)		AC133 transitional adjustment	(1 861)
		Prior year cut-off error	
(990)		Distributable reserves at 30 June 2002, as restated	260 648
<b>5. FINANCE COSTS/(INCOME)</b>			
37 811	<b>59 358</b>	Funding costs	<b>87 550</b>
(7 388)	<b>(5 322)</b>	Finance income	<b>(8 863)</b>
(1 354)		Dividends received	
29 069	<b>54 036</b>		<b>78 687</b>
			45 842
<b>6. TAXATION</b>			
52	<b>351</b>	<b>6.1.1 Current taxation</b>	<b>50 364</b>
52	<b>351</b>	Current year	<b>17 798</b>
(4 669)	<b>6 306</b>	Prior year	<b>32 566</b>
(4 669)	<b>6 306</b>	<b>6.1.2 Deferred taxation</b>	<b>65 265</b>
		Current year	<b>62 365</b>
		Prior year	<b>2 900</b>
(4 617)	<b>6 657</b>		<b>115 629</b>
			33 804
<b>6.2 Taxation reconciliation</b>			
(72 558)	<b>(647 294)</b>	(Loss)/income before taxation	<b>(588 104)</b>
(21 767)	<b>(194 188)</b>	Taxation at statutory taxation rate of 30%	<b>(176 431)</b>
17 098	<b>277</b>	Net capital items	<b>(3 082)</b>
	<b>191 159</b>	Non-deductible expenditure	<b>108 991</b>
		Goodwill amortisation and impairment	<b>120 220</b>
52	<b>350</b>	Prior year taxation	<b>(25 282)</b>
	<b>9 059</b>	Assessed loss utilised	<b>18 162</b>
		Temporary differences not recognised	<b>73 051</b>
(4 617)	<b>6 657</b>	Effective taxation	<b>115 629</b>
			33 804
%	%		%
<b>Taxation rate reconciliation</b>			
(30.0)	<b>(30.0)</b>	Statutory taxation rate	<b>(30.0)</b>
23.6	<b>0.0</b>	Net capital items	<b>(0.5)</b>
	<b>29.5</b>	Non-deductible expenditure	<b>18.5</b>
		Goodwill amortisation	<b>20.5</b>
	<b>0.1</b>	Prior year taxation	<b>(4.3)</b>
	<b>1.4</b>	Assessed loss utilised	<b>3.1</b>
		Temporary differences not recognised	<b>12.4</b>
(6.4)	<b>1.0</b>	Effective taxation rate	<b>19.7</b>
			99.5

COMPANY		GROUP	
2002	2003	2003	2002
R'000	R'000	R'000	R'000
		<b>6.3 Deferred taxation</b>	
		Property, plant and equipment	(7 985) (6 576)
		Capitalised leases	70
		Trade receivables	530 (49)
		Trademarks	4 082 4 857
		Prepayments	(80) (380)
		Provisions	1 963 6 699
		Deferred income	7 236
		Other	873 3 140
6 306		Assessed losses	2 810 54 247
6 306		<b>Total</b>	<b>2 193</b> 69 244
		<b>Net deferred taxation asset</b>	
1 637	<b>6 306</b>	Opening balance	69 244 60 008
		Add: Subsidiaries acquired	5 214
4 669	<b>(6 306)</b>	Income statement movement – deferred tax reversal/impairment	(65 265) (3 842)
		Deferred taxation effects of fair value adjustments	9 723
		Other	(1 786) (1 714)
		Translation difference	(145)
6 306		<b>Closing balance</b>	<b>2 193</b> 69 244
6 306		Deferred taxation asset	2 931 71 728
		Deferred taxation liability	(738) (2 484)
		<b>6.4 Taxation losses</b>	
		Estimated taxation losses claimable but not yet assessed available for set off against future taxable income amount to:	270 532 19 760
21 020	<b>30 195</b>		

## 7. EARNINGS PER ORDINARY SHARE

### 7.1 Basis for calculation

The calculation of headline (loss)/earnings per ordinary share is based on a headline loss of R255.5 million (2002: headline profit of R96.7 million) and a weighted average number of 66.6 million (2002: 66.6 million) ordinary shares in issue during the period.

The calculation of (loss)/earnings per ordinary share is based on a loss of R702.1 million (2002: profit of R8.4 million) and a weighted average number of 66.6 million (2002: 66.6 million) ordinary shares in issue during the period.

Both headline (loss)/earnings per share and (loss)/earnings per share exclude 6.9 million (2002: 6.8 million) treasury shares.

The calculation of fully diluted (loss)/earnings per ordinary share is based on a loss of R702.1 million (2002: profit of R8.4 million) and on 66.6 million (2002: 66.9 million) ordinary shares in issue throughout the year.

The dilution of 0.1 cents per share in the prior year was the result of options granted to acquire ordinary shares as set out in note 14.3.1 and the commitment that previously existed in respect of Drive Control Corporation as per note 16.3. These events are no longer likely to occur or influence earnings per share.

COMPANY		GROUP	
2002	2003	2003	2002
R'000	R'000	R'000	R'000
<b>7.2 Reconciliation of headline earnings</b>			
		<b>(702 076)</b>	8 355
		<b>4 139</b>	4 997
		<b>4 031</b>	(1 907)
		<b>400 734</b>	82 895
		<b>22 831</b>	
		<b>11 280</b>	1 341
		<b>3 513</b>	
			1 046
		<b>(255 548)</b>	96 727
			87 319
			10 929
			(1 521)
			96 727
		<b>cents</b>	<b>cents</b>
<b>7.3 Reconciliation of headline earnings per share</b>			
		<b>(1 054.3)</b>	12.6
		<b>6.2</b>	7.5
		<b>6.0</b>	(2.9)
		<b>601.8</b>	124.5
		<b>34.3</b>	
		<b>16.9</b>	2.0
		<b>5.3</b>	
			1.6
		<b>(383.8)</b>	145.3

## 8. DIRECTORS' SERVICE CONTRACTS

No long-term service contracts are in existence for executive directors, except for N J Webster whose service contract has a three-month notice period. R S Price resigned on 12 August 2002. In terms of his contract an amount of R0.9 million is payable during the year to 30 June 2003 and R0.9 million is payable during the year ended 30 June 2004.

## GROUP

	Land and Buildings R'000	Plant and Machinery R'000	Computer Equipment Owned R'000	Computer Equipment Leased R'000	Motor Vehicles R'000	Office Furniture and Equipment R'000	Capitalised Development Costs R'000	TOTAL R'000
<b>9. PROPERTY, PLANT AND EQUIPMENT</b>								
<b>Cost</b>								
At 1 July 2002	170 470	122 702	78 025	626	15 080	41 769	29 954	458 626
Additions	30 121	19 361	26 082	395	1 478	3 075	164	80 676
Subsidiaries acquired	49 316							49 316
Disposals	(188)	(4 443)	(18 993)	(82)	(3 137)	(3 374)		(30 217)
Subsidiaries disposed	(2 667)	(123)	(6 883)			(236)		(9 909)
Reclassification/ translation difference	(12 839)	(13 059)	6 824	(222)	(880)	(6 896)	(4 306)	(31 378)
Impairment of assets	(19 482)	(595)	(15)			(1 521)		(21 613)
At 30 June 2003	214 731	123 843	85 040	717	12 541	32 817	25 812	495 501
<b>Accumulated depreciation</b>								
At 1 July 2002	10 771	60 545	38 020	138	8 536	21 079		139 089
Depreciation	4 735	16 668	23 687	459	2 820	3 999	3 831	56 199
Subsidiaries acquired								
Disposals	(12)	(3 942)	(9 789)	(42)	(2 192)	(2 350)		(18 327)
Subsidiaries disposed	(3)	(97)	(3 755)			(128)		(3 983)
Reclassification/ translation difference	(1 273)	(7 574)	1 329		(356)	(4 032)	1 633	(10 273)
Impairment of assets						(495)		(495)
At 30 June 2003	14 218	65 600	49 492	555	8 808	18 073	5 464	162 210
<b>Net book value</b>								
At 30 June 2002	159 699	62 157	40 005	488	6 544	20 690	29 954	319 537
At 30 June 2003	200 513	58 243	35 548	162	3 733	14 744	20 348	333 291

## COMPANY

### Cost

At 1 July 2002	8 195	8 195
Transfers	(8 195)	(8 195)
At 30 June 2003		

### Accumulated depreciation

At 1 July 2002		
Transfers		
At 30 June 2003		

### Net book value

At 30 June 2002	8 195	8 195
At 30 June 2003		

A register of land and buildings is available for inspection at the registered office of the company.

Certain assets have been pledged as security against certain loans as detailed in note 15.

Impairments include:

R8.9 million impairment of the fixed property of MGX Property (Pty) Limited, being the property it owns in Midrand and which was originally acquired on 7 July 1999 for R44.5 million. The property has been impaired by the directors to reflect its estimated net realisable value of R36 million;

R8.4 million impairment of the property of Dion Business Systems (Pty) Limited. This includes the property it owns in Linbro Park and which was originally acquired on 23 December 1997 for R22 million. The property has been impaired by the directors to reflect their estimated net realisable value of R22.5 million;

R3.2 million impairment in the value of the property owned by MGX Faerie Glen (Pty) Ltd, acquired on 1 July 2003 from MGX for R8.2 million. The property has been impaired by the directors to reflect its estimated net realisable value of R5 million.

COMPANY		GROUP	
2002 R'000	2003 R'000	2003 R'000	2002 R'000
<b>10. FINANCIAL ASSETS</b>			
<b>10.1 Subsidiaries</b>			
359 237	<b>160 398</b>	Shares at carrying value ▲	
139 930	<b>(72 981)</b>	Amounts owing to subsidiaries ▲	
115 386	<b>94 676</b>	Equity loan to Metrofile ▲	
		10% redeemable preference shares in Didata UK Limited •	
12 397	<b>12 397</b>		
626 950	<b>194 490</b>		
<b>10.2 Joint venture</b>			
54 010	<b>51 029</b>	50% of Drive Control Holdings (Pty) Limited	
<b>10.3 Associates</b>			
2 010		<b>25.9% of Maxtec Limited</b>	2 010
19 873		Shares at cost	19 873
(17 863)		Impairment adjustment	(17 863)
2 010			2 010
2 010		Market and directors' valuation	2 010
<b>10.4 Other investments</b>			
		<b>0% (2002: 20%) of Rivendell (UK)</b>	10 549
		Unlisted shares at cost	10 549
		Converted to subsidiary	(10 549)
		<b>1% (2002: 10%) of Correlate (Pty) Limited</b>	9 874
		Unlisted shares at cost	22 004
		Impairment adjustment	(22 004)
		<b>0% (2002: 39%) of Metrofile UAE</b>	2 558
		Unlisted shares at cost	2 558
		Disposal	(2 558)
		<b>50% of Exsol Europe</b>	419
		Unlisted shares at cost	615
		Impairment adjustment	(615)
		<b>9% (2002: 22%) of Connect One</b>	7 189
		Unlisted shares at cost	7 189
		Impairment adjustment	(7 189)
		<b>20% (2002: 24%) of Intervate Holdings</b>	587
		Unlisted shares at cost	5 587
		Impairment adjustment	(5 587)
		<b>50% share of preference shares held by joint venture</b>	5 000
		Origin Guaranteed Invest Participation RMB - Rake Investment Trust	5 000
		<b>CCH Associate •</b>	1 700
		<b>Other</b>	8
			<b>16 700</b>
		Directors' valuation	30 695
			<b>16 700</b>
			30 695

COMPANY		GROUP	
2002	2003	2003	2002
R'000	R'000	R'000	R'000
<b>10.5 Investment loans</b>			
9 200			9 200
9 200	<b>9 200</b> <b>(9 200)</b>	<b>9 200</b> <b>(9 200)</b>	9 200
7 252			7 252
10 914	<b>10 644</b> <b>(10 644)</b>	<b>10 644</b> <b>(10 644)</b>	10 914
(3 662)			(3 662)
3 490			360
19 942			16 812
702 912	<b>245 519</b>	<b>16 700</b>	49 517
Total financial assets			

### 10.6 Summarised financial information of joint venture

The group's proportional interest in the joint venture (refer note 10.2) has been incorporated in the group's assets, liabilities and results as follows:

Property, plant, equipment and investments	<b>15 647</b>	5 502
Working capital	<b>44 006</b>	37 669
Revenue	<b>208 781</b>	203 203
Profit before tax	<b>19 974</b>	14 610

• At 30 June 2003, MGX had ceded and pledged its interests in the assets noted to the capital providers.

▲ For further details on security and other information refer to page 76 of this circular

## 11. GOODWILL

### 11.1 Goodwill

Cost	<b>524 735</b>	382 300
Accumulated amortisation	<b>(107 043)</b>	(18 854)
Net carrying value at beginning of the year	<b>417 692</b>	363 446
Additional goodwill arising on CCH acquisition		64 223
EC-Hold acquisition	<b>17 282</b>	51 757
Goodwill arising from increase in Drive Control underpin	<b>49 485</b>	
Other minor acquisitions by subsidiaries	<b>7 257</b>	26 455
Disposals	<b>(6 000)</b>	
Amortisation for the year	<b>(69 465)</b>	(84 714)
Impairment write down	<b>(331 269)</b>	(3 475)
Net carrying value at the end of the year	<b>84 982</b>	417 692
Cost	<b>592 759</b>	524 735
Accumulated amortisation	<b>(507 777)</b>	(107 043)

COMPANY		GROUP	
2002 R'000	2003 R'000	2003 R'000	2002 R'000
<b>11.2 Negative Goodwill</b>			
		Cost	(5 294)
		Accumulated amortisation	5 294
		Net carrying value at beginning of the year	(5 294)
		Amortisation for the year	5 294
		Net carrying value at the end of the year	
		Cost	(5 294)
		Accumulated amortisation	5 294
		Total goodwill	84 982
			417 692
		Goodwill pertaining to the acquisition of EC-Hold, the Drive Control underpin and most of the CCH subsidiaries have been impaired in full.	
<b>12. TRADEMARKS</b>			
		Cost	3 844
		Accumulated amortisation	(2 048)
		Net carrying value at beginning of the year	1 796
		Acquisitions during the year	731
		Reclassification from property, plant and equipment	123
		Amortisation for the year	1 329
		Other changes in the carrying amount of intangibles for the year	(628)
			(63)
		Net carrying value at the end of the year	103
		Cost	3 781
		Accumulated amortisation	(3 678)
			3 844
			(2 048)
<b>13. INVENTORIES</b>			
		Maintenance spares	17 840
		Finished goods	16 509
		Work in progress	27 509
		Raw materials	5 979
		Consumables	452
			760
			110
		Total inventory	51 948
		Less: Provisions	(7 923)
		Net inventory	44 025
			76 645
			(8 195)
			68 450
		A general notarial bond has been taken over certain inventories.	
<b>14. ORDINARY SHARE CAPITAL AND SHARE PREMIUM</b>			
<b>14.1 Share capital</b>			
<i>Authorised</i>			
615	615	100 000 000 ordinary shares of 0.6146 cents each	615
			615
<i>Issued</i>			
456	456	74 077 413 ordinary shares of 0.6146 cents each	456
			456
		Less: Treasury shares offset	(43)
(6)	(4)	Impairment of share incentive shares	(4)
			(6)
450	452		409
			407



#### 14.3.1 Share options

The following options have been granted:

<b>Offer price R</b>	<b>Number of participants</b>	<b>Number of share options granted</b>
2.25	5	90 000
3.60	2	27 500
5.50	7	56 250
6.65	1	12 500
6.70	1	15 000
9.00	242	4 290 175
12.50	5	86 250
15.00	1	37 500
25.00	1	100 000
68.37	2	1 960
82.86	2	2 251
	269	4 719 386

#### 14.3.2 Management incentive trust

The management incentive trust purchased shares in MGX. These shares were paid for by the participants and will be delivered to these participating individuals on completion of documentation required by the scheme.

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COMPANY			GROUP	
2002	2003		2003	2002
R'000	R'000		R'000	R'000
<b>15. LONG-TERM LIABILITIES</b>				
<b>15.1 Non-interest-bearing liabilities</b>				
26 644	<b>68 609</b>	Unsecured vendor loans	<b>73 477</b>	26 644
		Interest free and repayable on achievement of warranted profits		
		Unsecured shareholders' loan		6 170
(5 140)	<b>(68 609)</b>	Less: Amounts payable within one year reflected under current liabilities	<b>(73 477)</b>	(5 140)
21 504		Total non-interest-bearing liabilities		27 674
<b>15.2 Interest-bearing liabilities</b>				
		<b>Secured convertible debentures</b>	<b>16 575</b>	16 729
		Secured by a first mortgage bond over a property with a estimated net book value of R22.5 million (2002: R26 million). The debentures bear interest at 15.8% per annum and may be converted into ordinary shares in a subsidiary company on 7 May 2008. The interest rate is linked to movements in the 91 day bankers' acceptance rate. A group company holds the options to these conversion rights.		
	<b>5 761</b>	<b>Finance leases</b>	<b>40 073</b>	77 118
		Secured over assets held under finance leases having a book value of R25 million (2002: R31.0 million). A total of R20.1 million (2002: R37.2 million) is repayable within one year. The balance is repayable within 2-5 years.		
50 000	<b>50 000</b>	<b>Unsecured convertible debentures</b>	<b>50 000</b>	50 000
		The debentures currently bear interest at 14.15% per annum paid semi-annually in arrears on the nominal amount of R50 million and may be converted into 2 343 018 ordinary shares in the capital of the company having a par value of 0.6146 cents on 10 March 2005. The interest rate is linked to movements in the 6 month JIBAR rate.		
		<b>Bond</b>	<b>38 803</b>	26 777
		Secured by first mortgage bonds over properties with estimated net book values of R60 million (2002: R44 million). The loans bear interest at prime less 1.25% and at prime less 1.0% and are repayable in equal monthly instalments. The last payment is due on 31 May 2013.		
		<b>British Pound denominated bank loans to a subsidiary *</b>	<b>49 929</b>	21 562
	<b>(3 292)</b>	Less amounts payable within one year reflected under current liabilities	<b>(26 305)</b>	(55 555)
50 000	<b>52 469</b>	Total interest-bearing liabilities	<b>169 075</b>	136 631
71 504	<b>52 469</b>	Total non-current liabilities	<b>169 075</b>	164 305

COMPANY			GROUP	
2002	2003		2003	2002
R'000	R'000		R'000	R'000
<b>15.3 Current liabilities</b>				
5 140	68 609	Non-interest-bearing liabilities	73 477	5 140
73 634	131 302	Interest-bearing liabilities	267 189	229 566
69 822	3 292	Short-term portion of long-term liabilities	26 305	55 555
3 812	69 881	Secured Bank loans *	175 255	167 120
	58 129	Sundry loans	65 629	6 891
		– Brait (secured by pledge over MGX's 49% direct shareholding in Didata UK)	20 000	
		– Eurevest Leasing (secured by a pledge from certain group companies* and 32.3 million EC-Hold shares)	17 030	
		– Mandy Rebecca Price Trust (secured by pledge of 16.6 million EC-Hold shares)	16 800	
		– Drive Control Corporation	7 500	
		– Computer Configurations Holdings Limited	4 299	3 812
		– Other		3 079
<p>*Security for these loans is held over group receivables, claims, assets and shares. Full details of securities are available for inspection at the company's registered office.</p>				

#### 15.4 Refinancing of the interest-bearing liabilities

On 27 November 2003 MGX announced that agreements have been reached with Citibank N.A., South Africa Branch, The Standard Bank of South Africa Limited, Momentum Group Limited, Nedbank Limited, Investec Bank Limited, Capital Africa Limited, Drive Control Services (Proprietary) Limited, Eurevest Leasing (Proprietary) Limited ("Eurevest") and the Trustees for the Time Being of the South African Private Equity Trust III (collectively, "the Capital Providers") to refinance the interest-bearing debt of MGX.

The domestic interest-bearing debt of approximately R400 million remaining after the disposals will be refinanced as follows:

MGX, Metrofile and related businesses will dispose of the assets and liabilities of Metrofile and related businesses, as a going concern, to Main Street 152 (Proprietary) Limited ("Main Street"), a special purpose vehicle created to facilitate the debt refinancing, in terms of section 228 of the Companies Act for a purchase price of R305 million ("the Metrofile disposal").

Main Street will raise R325 million of debt from certain of the Capital Providers on the following basis:



COMPANY		GROUP	
2002 R'000	2003 R'000	2003 R'000	2002 R'000
		<b>10 000</b>	
	<p><b>A short-term working capital facility (“the Working Capital facility”) of approximately</b></p> <p>being a revolving working capital facility, accruing interest at the prime rate minus 1% on a NACQ basis, to be repaid in full on the earlier of 12 months after the date on which advanced or the date upon which the Metrofile A facility reaches a level of R80 million and ranking <i>pari passu</i> with the Metrofile A facility as regards access to the security.</p>		
		<b>305 000</b>	
	<p><b>Facilities used to settle the purchase consideration</b></p> <p>Main Street will pay the R305 million purchase consideration for the assets and liabilities of Metrofile to Metrofile. Metrofile will pay an amount of R305 million to MGX in the form of dividends and the repayment of inter-company loans. Metrofile will be voluntarily wound-up by MGX. MGX will settle R305 million of its domestic interest-bearing debt with the funds received from Metrofile.</p>		
		<b>20 000</b>	
	<p><b>A redeemable convertible loan (“Metrofile B1 facility”) of approximately</b></p> <p>being a five-year credit facility, accruing interest at the prime rate on a NACQ basis, repayable from excess cash flows after the Working Capital facility has been repaid and the Metrofile A facility has been reduced to R80 million, secured by a second right of access to the security, ranking <i>pari passu</i> with the rights of the providers of the Metrofile B facility and conditional on obtaining exchange control approval from the South African Reserve Bank. The balance of the Metrofile B1 facility, inclusive of accrued and capitalised interest, outstanding on the happening of certain default events or the final date for repayment of the Metrofile B1 facility, will be convertible, at the election of the lenders of the Metrofile B1 facility and the Metrofile B Facility, into Main Street ordinary shares.</p>		
		<b>325 000</b>	
	<p><b>Sub-Total (collectively, “the Metrofile facilities”)</b></p> <p>Within MGX the debt remaining after the debt refinancing, being certain concurrent creditors, will have their claims to the value of approximately R65 million compromised in terms of section 311 of the Companies Act, 1973 (Act 61 of 1973), as amended. The debt will be settled by MGX through:</p>		



COMPANY		GROUP	
2002 R'000	2003 R'000	2003 R'000	2002 R'000
<b>16. COMMITMENTS</b>			
<b>16.1 Authorised capital expenditure</b>			
Already contracted for			26 543
<b>16.2 Operating leases</b>			
Future leasing charges for premises, equipment and motor vehicles			
Payable within one year		<b>65 866</b>	91 472
Payable within two to five years		<b>98 659</b>	135 166
Payable thereafter		<b>76 958</b>	203 833
		<b>241 483</b>	430 471

### 16.3 Drive Control Corporation

In terms of the 50% holding in Drive Control Corporation, and subject to certain milestones being reached, MGX had a call option and the vendor had a put option to MGX on the remaining 50% effective 1 February 2004. The calculation of the price of the remaining 50% was to be based on the audited results to 30 June 2003 and payable in MGX shares.

Due to the settlement agreement entered into with Drive Control subsequent to the year-end, all claims between the parties have been waived.

### 16.4 Business Continuity Solutions

The management of BCS had a put option effective 1 July 2003 for two years, equivalent to 8.1% of the shares in BCS, provided certain milestones were achieved. This has been settled by agreement between the two parties subsequent to the year-end. Provision has been made for an amount of R4.9 million in this regard.

### 16.5 Didata Limited subscription and shareholders' agreement

A subscription and shareholders' agreement, relating to the reconstitution of the share capital of Didata Limited, was entered into between Brait Private Equity Limited, Copia Capital Partners, Insigner de Beaufort (Trust) Jersey Limited as Trustees of the Owen Dinsdale Life Interest Trust, MGX and Didata Limited on 9 May 2002. Various clauses within the agreement have a direct impact on the value of MGX's investment in Didata UK as MGX's shareholding in Didata UK is, *inter alia*, dependant on Didata's UK future performance and Brait's and Copia's internal rate of return achieved on their investment. In view of this uncertainty, no AC133 fair value adjustments have been made relating to this agreement.

## 17. CONTINGENT LIABILITIES

### 17.1 Securities Regulation Panel/MGX/EC-Hold

In March 2002 the SRP ruled that, for the purposes of the Securities Regulation Code on Takeovers and Mergers and the Rules of the Securities Regulation Panel, MGX and the Trustees of the Mandy Rebecca Price Trust had acted in concert for the purposes of entering into an affected transaction. MGX and the Mandy Rebecca Price Trust were ordered jointly and severally to make an unconditional offer to all persons, other than themselves, who were shareholders of EC-Hold on 11 October 1999 to purchase all their shares in EC-Hold. The offer price determined by the SRP was 240 cents per EC-Hold share. MGX has not complied with the ruling of the SRP and in August 2003, a summons, issued by the High Court of South Africa, Witwatersrand Local Division,

was served on MGX, in terms of which the SRP sought an order against MGX and several other defendants to, *inter alia*, comply with its ruling of March 2002. MGX has entered an Appearance to Defend.

MGX intend to propose a scheme of arrangement to compromise any EC-Hold shareholders holding claims against MGX arising out of the SRP ruling. The MGX Capital Providers have confirmed that they will waive any conditions precedent to the common terms agreement relating to the implementation of such a scheme of arrangement. The MGX Capital Providers have indicated that they will proceed with the debt refinancing in the knowledge that the Company faces the risk of a potential additional liability in respect of this matter.

The company believes that it has taken adequate steps in terms of the restructuring agreements to ensure that any further amounts required to deal with the matter will be settled in loan notes, as described in note 15.4. The value of such loan note should not exceed R12 million and an indemnity is held from R S Price to the extent that any liability pursuant to this matter is to be settled in cash.

### **17.2 Cycad Financial Holdings Limited (“Cycad”)**

In June 2002, MGX issued a summons against Cycad for an order directing Cycad to deliver share certificates and transfer declarations, blank as to transferee, in respect of 5 million shares in EC-Hold held by Cycad. Cycad defended the action. On 16 October 2003, MGX and Cycad entered into an agreement to settle the action and all other disputes in relation thereto (“the Cycad agreement”). The Cycad agreement provided for, *inter alia*, the purchase by MGX of 5 million shares in the issued share capital of EC-Hold from Cycad, subject to the fulfilment of suspensive conditions, for payment of R7.5 million to be paid by MGX to Cycad.

### **17.3 Sun Microsystems**

MGX received a letter of demand, in terms of Section 345 of the Companies Act, dated 3 May 2003 from Sun Microsystems (South Africa) (Proprietary) Limited, for payment of an amount of R1 million and a letter of demand from Sun Microsystems Schweitz AG (collectively “Sun”) claiming an amount of US\$0.9 million. MGX has repudiated both claims on the basis that it is not indebted to either of the aforesaid companies in the amounts claimed or at all for a variety of reasons. On or about 26 May 2003, MGX applied to the High Court of South Africa for an order to interdict Sun from bringing any action against MGX. Sun has not filed its answering affidavit.

### **17.4 Claim to Didata Shares**

T Appel, a previous Director of EC-Hold (who resigned on 25 April 2003), has an alleged claim against MGX for the issue and allotment to him of approximately 2% or 880 of MGX’s ordinary shares in Didata Limited resulting from his alleged claim to commission due and payable to him pursuant to raising investment finance in Didata Limited. Settlement discussions are underway and if such shares are to be issued and allotted to T Appel, MGX’s shareholding will be diluted.

### **17.5 Labour Actions**

During 1998, wage negotiations between Metrofile and a Trade Union deadlocked. The unionised members went on strike during the period 26 March 1998 and 15 April 1998. Metrofile dismissed striking members due to their misconduct during the strike action. The Labour Court ruled that the dismissals were substantively fair but procedurally unfair. The Labour Court held that, considering the nature of the misconduct of the employees during the strike action, no compensation was however to be ordered in favour of the employees. The Labour Court made no order as to costs. The matter was taken on appeal by the Trade

Union to the Labour Appeal Court during 2002 and the hearing was concluded on 17 December 2002. The Labour Appeal Court has not yet given its judgment. Metrofile has not made a provision for any amount in its annual financial statements but has recorded a contingent liability of R1.3 million.

Certain individual employees have threatened or instituted referrals to the Commission for Conciliation Mediation and Arbitration ("CCMA") pursuant to recent termination of employment in accordance with the restructuring and downsizing of the MGX Group. Should the CCMA or any Labour Court rule in favour of all the employees against MGX (which is possible but not probable), it is estimated that the total liability will be approximately R0.7 million.

#### **17.6 Intellectual Property ("IP") Rights**

In terms of the Didata Limited Subscription and Shareholders Agreement a Licence Agreement is to be executed between Didata Limited ("Licensee") and MGX, whereby the Licensee is granted a licence to use and an option to purchase, during a period of twenty years, certain licensed software against payment of GB£0.4 million. The Licensee shall become the sole beneficial owner of the licensed software in the event that MGX becomes insolvent, makes an assignment for the benefit of creditors, goes into liquidation or receivership or otherwise loses legal control of its business, other than the debt refinancing.

#### **17.7 EC-Hold letter of support**

It is the intention of MGX where feasible, to continue with its current arrangements to support EC-Hold and its subsidiaries until 30 June 2004. The current arrangements are to provide finance, as and when is required, to enable EC-Hold and its subsidiaries to continue as a going concern until 30 June 2004, subject to the following conditions:

- MGX is to remain a holder of a least 40% of the issued share capital of EC-Hold;
- There is to be no other majority shareholder of EC-Hold;
- The support envisaged herein does not breach any of MGX's bank covenants with its Banks;
- No party has made any application, whether provisionally or finally, for the liquidation of EC-Hold.

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### **18. BORROWING POWERS**

In terms of its articles of association the company's borrowing powers are unlimited.

Within its wholly-owned subsidiaries and Software Futures, the company is not aware of any material assets that are not encumbered. It should be noted that throughout the group there are certain sureties, omnibus sureties, inter-linking sureties and cross sureties between MGX and MGX group subsidiaries (and amongst themselves) provided to the capital providers.

Unused banking facilities at year-end amounted to R8.2 million. Of the R181.4 million (2002: R308.3 million) receivables, gross receivables of R150.8 million (2002: R196 million) are pledged as security for banking facilities of R170 million (2002: R140 million), of which R161.8 million had been utilised by the year-end (2002: R97.4 million). Certain of the other receivables have also been pledged as security.

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COMPANY		GROUP	
2002 R'000	2003 R'000	2003 R'000	2002 R'000

## 19. FINANCIAL RISK MANAGEMENT

### 19.1 Foreign currency exposure

In the normal course of business, the group enters into transactions denominated in a variety of foreign currencies. As a result the group is subject to transactions and translation exposures resulting from fluctuations in currency exchange rates. The group uses forward exchange contracts, foreign currency borrowings and natural hedges to minimise the foreign currency exchange exposures associated with its foreign currency transactions. Exposure to the group companies is generally controlled at a subsidiary level. It is not the group's policy to take speculative positions in foreign currencies. Existing forward exchange contracts cover existing and future trade commitments as well as other liabilities.

As at 30 June 2003 the group's foreign currency exposure was as follows:

	Currency	Amount in foreign currency	Exchange rate used	Reported value	Reported value
Uncovered foreign denominated liabilities	US\$'000	6 127	7.50	45 921	38 547
	GBP'000	5	12.39	63	2 813
	Euro'000	31	8.62	263	152
	JPY'000				46
Uncovered foreign denominated assets	US\$'000	62	7.50	462	13 868
	GBP'000	67	12.39	833	1 381
	Euro'000	6	8.62	48	
Existing foreign currency forward exchange contracts covering balance sheet items are:					
Buy contracts	US\$'000	1 919	7.52 - 8.79	15 117	52 393
	Euro'000				216

### 19.2 Interest rate risk

Financial assets and liabilities that are sensitive to interest rate risk are cash, bank overdrafts and medium and long-term liabilities. The interest rates applicable to these financial instruments are comparable with those currently available in the market.

### 19.3 Credit risk

Management has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. This is implemented and controlled at an operating subsidiary level. Credit risk evaluations are performed on all customers requiring credit over predetermined limits. This is implemented and controlled at an operating subsidiary level.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

### 19.4 Fair values

The fair values of all financial instruments are substantially identical to the carrying amounts reflected in the balance sheet.

## 20. RETIREMENT BENEFIT PLANS

All the retirement benefit plans operated by group companies domiciled in the Republic of South Africa are governed by the Pension Funds Act, 1956 (Act No 24 of 1956) ("the act").

### Defined contribution plans

Of the group's employees, certain are members of two defined contribution retirement benefit plans administered by Sasfin Financial Advisory Services (Pty) Limited ("Sasfin") and Sanlam Life Assurance Limited. Both the group and the employees are required to contribute to the retirement benefit scheme to fund the benefits.

The only obligation of the group with respect to the retirement benefit scheme is to make the specified contributions. The total cost charged to income of R4.3 million (2002: R3.6 million) represents contributions paid to the scheme.

### Defined benefit plan

A total of 538 of the group's employees participated in the MGX/Eureka Pension Fund ("the fund"). This fund is a multi-employer defined benefit fund, governed by the Pension Funds Act (Act No 24 of 1956), and was established with effect from 1 March 1988.

An interim valuation has been performed, effective 30 June 2003 solely for the purposes of this report. This interim valuation is not a fully comprehensive valuation. The year of the next full actuarial valuation is 2004.

Contributions to the fund terminated on 31 August 2002. The fund is in the process of preparing to submit the Section 14 (of the act) applications to wind up the fund. Upon completion of the apportionment of the funds in the fund, the balance will be transferred into the Abacus Fund (the defined contribution plan managed by Sasfin).

The amount included in the balance sheet arising from the group's obligation in respect of the defined benefit retirement fund is as follows:

COMPANY		GROUP	
2002	2003	2003	2002
R'000	R'000	R'000	R'000
	Present value of the obligation	<b>(35 165)</b>	(54 700)
	Fair value of plan assets	<b>37 250</b>	57 127
		<b>2 085</b>	2 427
	Unrecognised actuarial gains/(losses)	<b>1 800</b>	(1 149)
	Calculated net asset	<b>3 885</b>	1 278
	Asset not recognised	<b>(3 885)</b>	(1 278)
	Asset recognised in balance sheet		
	Amounts recognised in income in respect of the defined benefit retirement fund are as follows:		
	Current service cost	<b>925</b>	8 613
	Interest cost	<b>6 017</b>	4 942
	Expected return on plan assets	<b>(5 713)</b>	(4 705)
	Increase/(reduction) in provision against the net asset	<b>2 607</b>	(847)
	Expense recognised in the income statement (included in staff costs)	<b>3 836</b>	8 003
	Principal actuarial assumptions used		
	Discount rate (%)	<b>11.0%</b>	11.0%
	Expected return on plan assets (%)	<b>10.0%</b>	10.0%
	Future salary increases (%)	<b>11.0%</b>	11.0%
	Future pension increases (%)	<b>6.9%</b>	6.9%
	Consumer price index (%)	<b>6.9%</b>	6.9%

## 21. COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, prior year's revenue and cost of sales were both adjusted to reflect a more appropriate accounting presentation for commissions. Revenue, relating to commission earned by a subsidiary of EC-Hold for the year to 30 June 2002 has been reclassified so that the revenue figure is shown net of cost of sales, whereas previously it was disclosed gross. This has reduced cost of sales by R13.4 million and conversely reduced sales by R13.4 million. This change has had no net effect on the income statement or balance sheet.

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## 22. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors. The group and its subsidiaries in the ordinary course of business, enter into various transactions with entities in which the group has an interest. These transactions are entered into on an arm's length basis. Significant related party transactions are detailed below.

### **Inter-Company Trading and Group Management Fees**

Inter-company revenue between subsidiaries during the year amounted to R14.3 million (2002: R52.3 million).

During the year, management fees in the amount of R38.0 million (2002: R22 million) were charged to subsidiaries.

### **Loans**

Inter-company loans are repayable on demand unless subordinated. Interest is charged at market rates.

EC-Hold and MGX have, as and when needed, extended loans to one another at market-related interest rates. MGX and EC-Hold have common directors. At the balance sheet date, EC-Hold was indebted to MGX in the amount of R19.7 million. MGX has subordinated R11 million of the R19.7 million in favour of other creditors until 30 June 2004.

Further loans with related parties are listed under 'sundry loans' in the interest-bearing short term liabilities in note 15.3.

### **Directors and Management**

P H Flack, his alternate AD Moffat, and L B Robertson, who were appointed and resigned as directors during the year, are the directors of F R M Strategies, a company that was employed to oversee the strategic review process undertaken by the group during the year at a cost of R3.2 million.

C S Hills, who resigned during the year as a director, is one of the purchasers in the disposal of Magic SA out of EC-Hold. This was not known to MGX at the time and the directors only became aware of this fact from press reports after concluding the transaction.

D J J McMahon, who resigned subsequent to the year-end as a director, is the sole shareholder of the purchaser of Storage Solutions and Professional Services.

The MGX Business Continuity Solutions ("BCS") senior management were all directors and are also shareholders of ContinuitySA, the purchaser of the businesses of BCS and BCS (Cape) as going concerns, with effect from 13 November 2003.

The MGX Enterprise Solutions ("ES") senior management were all directors and are also shareholders of Dreamteam Investments, the purchaser of the business of ES as a going concern, with effect from 31 July 2003.

An amount of R0.9 million was paid to R S Price, who resigned during the year as a director, in terms of his service contract. A further R0.9 million will be paid in the following year. The shares previously held in Maxtec were bought by RS Price through the market. MGX purchased 16.6 million EC-Hold shares at R1.00 each from RS Price during the year. Eurevest Leasing (Pty) Limited, of which RS Price is a shareholder and director, has perfected its pledges on 48.9 million shares held by MGX in EC-Hold.

An amount of R0.2 million was paid to L Wengrowe, who resigned during the year as a director, in terms of her service contract.

O Dinsdale, managing director of Didata Limited, is a beneficiary of the Insigner de Beaufort (Jersey) Trust Limited, from whom Didata Limited purchased Rivendell Properties Limited. Furthermore, he is a partner in Marktime, which provides consultancy and accounting services to the company. During the period the company paid R2.8 million (2002: R2.8 million) to Marktime.

<b>COMPANY</b>		<b>GROUP</b>	
2002	<b>2003</b>	<b>2003</b>	2002
R'000	<b>R'000</b>	<b>R'000</b>	R'000
<b>23. PROVISIONS</b>			
Included in other payables and provisions are the following provisions:			
Opening balance on 1 July 2002		<b>10 959</b>	7 200
Incentive provision			1 923
Provision for restructuring			2 577
Warranty provision		<b>2 700</b>	2 700
Provision for legal costs		<b>6 420</b>	
Onerous contract		<b>1 839</b>	
Provisions raised/(utilised)		<b>(623)</b>	3 759
Incentive provision			(1 923)
Provision for restructuring			(2 577)
Warranty provision		<b>(2 700)</b>	
Provision for legal costs		<b>(6 300)</b>	6 420
Onerous contract		<b>8 377</b>	1 839
Closing balance on 30 June 2003		<b>10 336</b>	10 959
Warranty provision			2 700
Provision for legal costs		<b>120</b>	6 420
Onerous contract		<b>10 216</b>	1 839

COMPANY		GROUP	
2002	2003	2003	2002
R'000	R'000	R'000	R'000

## 24. CASH FLOW STATEMENT

### 24.1 Convention

The following convention applies to figures other than adjustments. Outflow of cash is represented by figures in brackets. Inflow of cash is represented by figures without brackets.

### 24.2 Reconciliation of (loss)/income before taxation to cash generated from/(utilised in) operations

(72 558)	<b>(647 294)</b>	(Loss)/Income before taxation	<b>(588 104)</b>	33 955
70 772	631 047	Adjusted by:	<b>586 807</b>	145 214
		Loss on disposal of property, plant and equipment	<b>4 139</b>	4 997
		Depreciation and trademark amortisation	<b>57 829</b>	42 863
29 069	<b>54 036</b>	Goodwill amortisation and impairment	<b>400 734</b>	82 895
	<b>923</b>	Net finance cost	<b>78 687</b>	45 842
	<b>420 092</b>	Loss on disposal of investments	<b>13 499</b>	
	<b>160 273</b>	Impairment of investments	<b>11 281</b>	
		Impairment of loans receivable	<b>14 926</b>	
41 703	<b>(4 277)</b>	Provision for liability in respect of BCS subscribing shareholders	<b>4 868</b>	
		Other non-cash flow items	<b>844</b>	6 554
		Cash effect of fair value adjustment		(37 937)
(1 786)	<b>(16 247)</b>	Operating (loss)/profit before working capital changes	<b>(1 297)</b>	179 169
8 133	<b>4 417</b>	Changes in working capital	<b>81 192</b>	(50 142)
6 204	<b>3 930</b>	Decrease/(Increase) in inventories	<b>21 366</b>	(21 063)
1 929	<b>487</b>	Decrease/(Increase) in receivables	<b>114 973</b>	(4 808)
		(Decrease)/Increase in payables	<b>(55 147)</b>	(24 271)
6 347	<b>(11 830)</b>	Cash generated from/(utilised in) operations	<b>79 895</b>	129 027

### 24.3 Acquisition of subsidiaries net of cash acquired

During the year Didata Ltd acquired the balance of the shares in Rivendell Properties Ltd. The fair value of the assets acquired and liabilities assumed were as follows (prior year related to the acquisition of EC-Hold):

Deferred taxation asset		(5 214)
Property, plant and equipment	<b>(49 316)</b>	(887)
Financial assets		(2 322)
Long-term liability	<b>7 829</b>	14 892
Inventories		(9 086)
Receivables	<b>(2 163)</b>	(10 597)
Intercompany debtors		(13 867)
Payables and provisions	<b>1 448</b>	32 670
Bank balance/(overdraft)	<b>(234)</b>	(10 695)
Investment in associate		9 378
Goodwill	<b>(68 614)</b>	(51 757)

COMPANY		GROUP		
2002	2003	2003	2002	
R'000	R'000	R'000	R'000	
(47 485)		Purchase consideration	<b>(111 050)</b>	(47 485)
		Made up as follows:	<b>(111 050)</b>	(47 485)
		– Cash	<b>(24 117)</b>	(47 485)
(47 485)		Open market price	<b>(24 117)</b>	(47 485)
		Cash paid back on acquisition		
		– Non-cash	<b>(86 933)</b>	
		Increase in unsecured shareholders' loan	<b>(68 337)</b>	
		Increase in other borrowings	<b>(18 596)</b>	
		Cash acquired	<b>234</b>	10 695
		Cash cost of acquisition	<b>(24 117)</b>	(47 485)
(47 485)		Total cash outflow	<b>(23 883)</b>	(36 790)

## 25. FAIR VALUE

The following table reflects the adjustments made to the book value of the major categories of assets and liabilities acquired to arrive at the fair value included in the consolidated financial statements at the date of acquisition.

### 25.1 EC-Hold Limited – Acquisition date 1 July 2001

	Book value at acquisition July 2001 R'000	Fair value adjustments 2002 R'000	Fair value to the Group 2002 R'000
Deferred taxation	28 662	(23 448)	5 214
Property, plant and equipment	887		887
Financial assets	5 569	(3 247)	2 322
Loans	(14 892)		(14 892)
Inventories	9 275	(189)	9 086
Receivables	23 329	(12 732)	10 597
Inter-group receivables	13 867		13 867
Bank balances	10 695		10 695
Payables	(32 602)	(67)	(32 669)
	44 790	(39 683)	5 107

In the 2003 year, there were no further fair value adjustments

Group		Continuing Operations		Discontinuing Operations		Group		
2002	2003	2003	2002	2003	2002	2003	2002	
%	%	R'000	R'000	R'000	R'000	R'000	R'000	
<b>26. SEGMENTAL ANALYSIS</b>								
100	100	Revenue	504 974	448 104	746 077	1 038 974	1 251 051	1 487 078
26	15	Enterprise solutions			185 461	383 364	185 461	383 364
5	7	Business continuity			81 836	74 665	81 836	74 665
33	35	Content management	440 275	487 206			440 275	487 206
23	25	Storage solutions			318 842	348 969	318 842	348 969
17	18	Software development	62 987	14 847	159 938	231 976	222 925	246 823
(4)	0	Central Services <i>et al</i>	1 712	(53 949)			1 712	(53 949)
100	100	EBITDA	15 483	111 637	(18 994)	116 619	(3 511)	228 256
26	335	Enterprise solutions			(11 770)	59 446	(11 770)	59 446
6	(333)	Business continuity			11 693	14 041	11 693	14 041
42	(2 034)	Content management	71 457	93 397			71 457	93 397
16	230	Storage solutions			(8 091)	37 580	(8 091)	37 580
8	890	Software development	(17 026)	13 323	(14 237)	5 552	(31 263)	18 875
2	1 012	Central Services <i>et al</i>	(38 948)	4 917	3 411		(35 537)	4 917
100	100	Assets	235 562	1 853 069	558 783	552 971	794 345	2 406 040
8	19	Enterprise solutions			151 881	187 774	151 881	187 774
4	14	Business continuity			112 731	86 066	112 731	86 066
18	50	Content management	395 629	428 214			395 629	428 214
7	21	Storage solutions			169 483	178 301	169 483	178 301
9	8	Software development	19 854	104 206	44 938	100 830	64 792	205 036
54	(12)	Central Services <i>et al</i>	(179 921)	1 320 649	79 750		(100 171)	1 320 649
100	100	Liabilities	473 537	1 338 252	561 499	594 022	1 035 036	1 932 274
8	12	Enterprise solutions			119 414	145 650	119 414	145 650
9	17	Business continuity			172 889	182 876	172 889	182 876
10	18	Content management	184 660	195 128			184 660	195 128
9	12	Storage solutions			120 953	177 981	120 953	177 981
7	6	Software development	28 870	52 585	32 117	87 515	60 987	140 100
57	35	Central Services <i>et al</i>	260 007	1 090 539	116 126		376 133	1 090 539
		Net (liabilities)/assets	(237 975)	514 817	(2 716)	(41 051)	(240 691)	473 766
100	100	Depreciation and goodwill impairment	104 494	28 177	352 439	14 058	456 933	42 235
3	16	Enterprise solutions			74 411	1 220	74 411	1 220
14	37	Business continuity			165 726	5 811	165 726	5 811
56	10	Content management	46 940	23 666			46 940	23 666
6	6	Storage solutions			28 502	2 643	28 502	2 643
12	18	Software development	55 258	693	25 413	4 384	80 671	5 077
9	13	Central Services <i>et al</i>	2 296	3 818	58 387		60 683	3 818
100	100	Capital expenditure	110 255	136 478	19 600	28 068	129 855	164 546
2	4	Enterprise solutions			5 148	3 294	5 148	3 294
8	7	Business continuity			9 536	13 950	9 536	13 950
41	84	Content management	108 723	67 927			108 723	67 927
0	1	Storage solutions			1 161	440	1 161	440
6	2	Software development	851		2 307	10 384	3 158	10 384
43	2	Central Services <i>et al</i>	681	68 551	1 448		2 129	68 551
100	100	Trademark amortisation	1 630	628			1 630	628
		Enterprise solutions						
		Business continuity						
100	18	Content management	300	628			300	628
		Storage solutions						
	82	Software development						
		Central Services <i>et al</i>	1 330				1 330	

Group		Continuing Operations		Discontinuing Operations		Group		
2002	2003	2003	2002	2003	2002	2003	2002	
%	%	R'000	R'000	R'000	R'000	R'000	R'000	
<b>27. GEOGRAPHICAL ANALYSIS</b>								
100	100	Revenue	504 974	448 104	746 077	1 038 974	1 251 051	1 487 078
85	82	South Africa	297 778	240 208	730 106	1 028 402	1 027 884	1 268 610
1	1	United States of America			15 971	10 572	15 971	10 572
14	17	United Kingdom	207 196	207 896			207 196	207 896
100	100	EBITDA	15 483	111 637	(18 994)	116 619	(3 511)	228 256
98	(28)	South Africa	(2 227)	91 719	3 203	131 754	976	223 473
(7)	632	United States of America			(22 197)	(15 135)	(22 197)	(15 135)
9	(504)	United Kingdom	17 710	19 918			17 710	19 918

## 28. DISCONTINUING OPERATIONS

### 28.1 Enterprise Solutions

On 27 June 2003, the group announced by way of circular its intention to sell the business of MGX Enterprise Solutions (Pty) Limited. The business was sold, effective 31 July 2003, for R19.0 million and is reported in these financial statements as a discontinuing operation. The revenue, EBITDA, assets, liabilities, depreciation and impairments, capital expenditure and trademark amortisation comprise the entire amounts shown as discontinuing operations for the 'Enterprise solutions' segment in note 26.

### 28.2 Business Continuity Solutions

On 3 October 2003, the group announced by way of circular its intention to sell the business of MGX Business Continuity Solutions (Pty) Limited. The business was sold, effective 13 November 2003, for R60 million and is reported in these financial statements as a discontinuing operation. The revenue, EBITDA, assets, liabilities, depreciation and impairments, capital expenditure and trademark amortisation comprise the entire amounts shown as discontinuing operations for the 'Business continuity' segment in note 26.

### 28.3 Storage Solutions

On 3 October 2003, the group announced by way of circular its intention to sell MGX Storage Solutions (Pty) Limited and MGX Storage Solutions Professional Services (Pty) Limited in a single transaction. The companies were sold, effective 31 August 2003, for an effective R4 million and is reported in these financial statements as discontinuing operations. The revenue, EBITDA, assets, liabilities, depreciation and impairments, capital expenditure and trademark amortisation comprise the entire amounts shown as discontinuing operations for the 'Storage solutions' segment in note 26.

## 28. **DISCONTINUING OPERATIONS (continued)**

### 28.4 **Software development**

#### **Software Futures**

On 3 October 2003, the group announced by way of circular its intention to sell the business of MGX Software Futures (Pty) Limited. The business was sold, effective 22 September 2003, for R20 million and is reported in these financial statements as a discontinuing operation. The revenue, EBITDA, assets, liabilities, depreciation and impairments, capital expenditure and trademark amortisation are shown as discontinuing operations for the 'Software development' segment in note 26 above.

#### **enTechnologies**

enTechnologies (Pty) Limited was sold, effective 26 June 2003, for R1 million and is reported in these financial statements as a discontinuing operation. The revenue, EBITDA, depreciation and impairments, capital expenditure and trademark amortisation are shown as discontinuing operations in the 'Software development' segment in note 26.

The revenue and EBITDA comprise the entire amounts shown as discontinuing operations for the 'United States of America' geographical segment in note 27.

## Subsidiaries

Subsidiary	Nature of Business	Percentage Holding		Cost of Investment		Net Indebtedness	
		2003 %	2002 %	2003 R'000	2002 R'000	2003 R'000	2002 R'000
Curat Solutions (Pty) Ltd	Storage management consultancy	100	100		13 674	(426)	(426)
Didata Ltd ♦ ▲	Document management systems and off-site document and data storage	49	49	9 429	8	(294)	2 252
Dions Business Systems (Pty) Ltd ♦ ▲	Property owning	100	100	10 456	9 802	17 925	79 005
Document and Data Management (Africa) (Pty) Ltd ▲	Sales and marketing	100	100			(140)	(110)
Eurefin (Pty) Ltd	Property owning		65				3 182
EC-Hold Limited ♦ ■	Document management systems	90	89	36 773	52 196	19 687	(1 101)
enTechnologies	Data broadcasting systems		50				372
MGX Properties Faerie Glen (Pty) Ltd ♦ ▲	Property owning	100	100			25 245	
Infracom (Pty) Ltd ▲	Dormant	100	100	67 783	67 783	(67 783)	(67 783)
Mail Processing Systems (Pty) Ltd ▲	Mailing systems	100	100	10		(3 087)	(3 490)
Metrofile (Pty) Ltd ♦ ▲	Off-site document and data storage	100	100	584	584	94 676	97 486
– Equity loan						94 676	115 386
– Other indebtedness							(17 900)
MGX Business Continuity Solutions (Pty) Ltd ▲	Business continuity services	100	100	4 790	24 650	50 582	57 942
MGX Customer Services Excellence (Pty) Ltd ▲	Service and maintenance	100	100			(22 545)	(20 094)
MGX Enterprise Solutions (Pty) Ltd ♦ ▲	Hardware and software sales and professional services	100	100		72 361	(50 046)	(32 338)
MGX Holdings UK Ltd	Investment holding company	100	100			7 841	7 505
MGX Management Services (Pty) Ltd	Management services	100	100			116 047	160 948
MGX Outsourcing (Pty) Ltd ▲	Document management systems, mailing systems and outsourcing bureaux	100	100			(5 900)	(4 979)
MGX Property (Pty) Ltd ♦	Property owning	100	100	4 918	30 000	13 160	7 599
MGX Storage Solutions (Pty) Ltd ♦ ▲	Digital storage solutions	100	100	4 000	45 170	(4 922)	2 319
MGX USA	Investment holding company	100	100		1	17 886	(8 920)
MGX Software Futures Group (Pty) Ltd ♦ ▲	Software development	95	95	21 655	48 770	1 080	(24 053)
Vision One (Pty) Ltd	Dormant	100	100	3 972	3 972		
				164 370	368 971	208 986	255 316
	Provision for permanent diminution in value			(3 972)	(9 734)	(187 291)	
				160 398	359 237	21 695	255 316
	Reflected as: Net amounts owing (to)/by subsidiaries					(72 981)	139 930
	Equity loan owing by subsidiary					94 676	115 386

• The MGX group holds 80% of Didata UK Ltd, as follows: 49.6% held directly by MGX Holdings Ltd and 30.4% held through MGX Holdings UK Ltd.

▲ At 30 June 2003, MGX had ceded and pledged all material amounts owing (to)/by any member of the MGX group to the capital providers.

■ MGX has subordinated R11 million of the R19.7 million due to it at 30 June 2003, in favour of other creditors until 30 June 2004.

♦ At 30 June 2003, MGX had ceded and pledged all its interests in the claims and shares of the subsidiaries to the capital providers.

It should be noted that throughout the group there are sureties, omnibus sureties, inter-linking sureties and cross sureties between MGX and MGX group subsidiaries (and amongst themselves) provided to the capital providers.

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## COURT ORDER

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### IN THE HIGH COURT OF SOUTH AFRICA (WITWATERSRAND LOCAL DIVISION)

Case number: 03/15482

before the Honourable Mr Justice Labe  
on Friday, 12 December 2003

in the *ex-parte* application of:

### **MGX HOLDINGS LIMITED**

(Registration number 1983/012697/06)

**Applicant**

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## ORDER

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Upon the Motion of Counsel for MGX Holdings Limited and having read the Notice of Motion and other documents filed of record:

### IT IS ORDERED THAT:

1. a meeting ("**scheme meeting**") in terms of section 311 of the Companies Act, 1973 (Act 61 of 1973), as amended ("**the Companies Act**"), of all persons having claims against MGX Holdings Limited ("**MGX**"), being any claim of whatsoever nature and description and howsoever arising, including claims, both actual and contingent, prospective, conditional and unconditional, liquidated and unliquidated, assessed or unassessed, or otherwise, and whether due for payment, performance, delivery or action or thereafter to become so due and including, but not limited to, claims arising out of any contracts concluded, or delicts committed ("**claims**"), other than MGX's secured creditors, and those persons having claims against MGX pursuant to any mandatory offer which MGX may make for the purchase of shares in EC-Hold Limited ("**the scheme creditors**"), be convened by the chairperson referred to in paragraph 2 ("**the chairperson**") to be held at 10:00 on Monday, 19 January 2004, for the purpose of considering and, if deemed fit, agreeing to, with or without modification, the scheme of arrangement ("**scheme**") proposed by MGX between MGX and the relevant scheme creditors;
2. Mr Mervyn Taback or failing him, Mr Rupert Smith, or failing both of them, any other independent person as may be nominated for that purpose by this Honourable Court, be and is hereby appointed as chairperson of the scheme meeting with authority to:
  - 2.1 convene the scheme meeting;
  - 2.2 appoint scrutineers for the scheme meeting;
  - 2.3 determine, in the chairperson's sole and absolute discretion, the validity and acceptability of the forms of proxy submitted for use at the scheme meeting by no later than 10 (ten) minutes before the applicable scheme meeting is due to commence;
  - 2.4 adjourn the scheme meeting from time to time should the chairperson consider that such adjournments are necessary;
  - 2.5 determine, in the chairperson's sole and absolute discretion the procedure to be followed at the scheme meeting and any adjournments thereof;

- 2.6 determine, in the chairperson's sole and absolute discretion the validity and/or amount of any claim of any person present or represented at either of the scheme meeting, for voting purposes at the relevant meeting;
3. a notice convening the scheme meeting substantially in the form attached to the papers before the Court be published at least 2 (two) weeks before the date of the scheme meeting once in each of the Government Gazette and the Sunday Times, Rapport and Business Day. The said notice shall state:
  - 3.1 the time, date and venue of the scheme meeting;
  - 3.2 that the scheme meeting has been summoned in terms of this Order for purposes of considering and, if deemed fit, of accepting the scheme, with or without modification;
  - 3.3 that copies of the notice of the scheme meeting, this Order, the terms of the scheme, the explanatory statement required by sections 312(1) and (2) of the Companies Act, the form of proxy and a list of the scheme creditors known to MGX (reflecting where appropriate the amount for which each scheme creditor will be regarded as a creditor for the purposes of voting at the scheme meeting) may be inspected during normal business hours at any time prior to the scheme meeting at the registered office of MGX, 22 Milkyway Avenue, Linbro Business Park, Linbro Park, by any creditor entitled to attend the scheme meeting;
  - 3.4 that copies of the notice of scheme meeting, this Order, the terms of the scheme, the explanatory statement required by sections 312(1) and (2) of the Companies Act, the form of proxy and a list of the scheme creditors known to MGX (reflecting where appropriate the amount for which each scheme creditor will be regarded as a creditor for the purposes of voting at the scheme meeting) may be obtained free of charge on written application to MGX c/o Charl du Plessis, at the address stated above, by any creditor entitled to attend the scheme meeting;
4. copies of:
  - 4.1 the notice convening the scheme meeting substantially in the form of the notice attached to the papers before the Court;
  - 4.2 this Order;
  - 4.3 the scheme and the explanatory statement required by sections 312(1) and (2) of the Companies Act substantially in the form of the scheme and explanatory statement attached to the papers before the Court;
  - 4.4 a list of scheme creditors known to MGX (reflecting where appropriate the amount for which each scheme creditor will be regarded as a creditor for the purposes of voting at the scheme meeting); and
  - 4.5 the form of proxy (blue) to be used at the scheme meeting substantially in the form of the form of proxy attached to the papers before the Court,be sent by MGX, by pre-paid registered post at least two weeks before the date of the scheme meeting, to scheme creditors of MGX to whom the scheme is to be submitted and whose claims are known to MGX, at the address of each such scheme creditor recorded in the books and records of MGX;
5. a copy of the documents referred to in paragraphs 4.1 to 4.5 shall lie for inspection at, and copies of these documents may be obtained free of charge on written application from the registered office of MGX during normal business hours at the place mentioned in paragraph 3.3 for at least two weeks prior to the date of the scheme meeting or any adjournment thereof, by any scheme creditor;

6. any scheme creditor who does not receive the documents referred to in paragraph 4, may before the scheme meeting commences and for the purpose of voting at the scheme meeting, hand to the chairperson an affidavit in which he confirms that he did not receive those papers and that he is a scheme creditor, stating the amount and the nature of his claim;
7. the notice of scheme meeting to be published and sent to scheme creditors shall also contain a statement that any scheme creditor wishing to vote by proxy shall tender the relevant form of proxy referred to in paragraph 4.5 of this Order, duly completed, executed and filed with the chairperson in one of the following manner:
  - 7.1 by hand, c/o Charl du Plessis, 22 Milkyway Avenue, Linbro Office Park, Linbro Park, Sandton, 2146, by no later than 10:00 on Thursday, 15 January 2004;
  - 7.2 by post, c/o Charl du Plessis, PO Box 1697, Bramley, 2018, to be received by no later than 10:00 on Thursday, 15 January 2004;
  - 7.3 by facsimile, c/o Charl du Plessis, facsimile number 011 458 6615, by no later than 10:00 on Thursday, 15 January 2004;
  - 7.4 by handing the form of proxy to the chairperson not later than 10 (ten) minutes before the time for commencement of the scheme meeting;
8. the chairperson report by way of affidavit the results of the meeting and the compliance by the Applicant of this Order to Court on Tuesday, 27 January 2004 at 10:00 or so soon thereafter as Counsel may be heard;
9. the report on the scheme meeting required by the Court from the chairperson, shall give details of:
  - 9.1 the number of scheme creditors present in person at the scheme meeting;
  - 9.2 the number of scheme creditors represented by proxy at the scheme meeting and, of those, the number represented by the chairperson;
  - 9.3 the amount of each of the claims of scheme creditors;
  - 9.4 any proxies in respect of the scheme meeting which have been disallowed and the reasons therefor;
  - 9.5 all resolutions passed at the scheme meeting, with particulars of the number of votes cast in favour of and against each such resolution and of any abstentions, indicating in each case how many votes were cast by the chairperson in terms of proxies;
  - 9.6 all rulings made and directions given by the chairperson at the scheme meeting;
  - 9.7 any relevant documents or reports tabled at the scheme meeting which relate to the scheme (including copies thereof);
  - 9.8 the main points of any other offers or scheme of arrangement or proposals submitted to the scheme meeting; and

10. the notice of the scheme meeting which is published and sent to scheme creditors shall include a statement that a copy of the said chairperson's report to the Court will be available free of charge at MGX's aforesaid registered office to any scheme creditor on request during normal business hours at least one week prior to the date on which the chairperson has to report back to Court pursuant to paragraph 8 above, being Tuesday, 27 January 2004.

BY ORDER OF THE COURT

*Registrar*

**Applicant's Attorneys**

Webber Wentzel Bowens

10 Fricker Road

Illovo Boulevard

Illovo

Johannesburg, 2196

(PO Box 61771, Marshalltown, 2107)

Telephone number: (011) 530-5000

Facsimile number: (011): 530-5120

Reference: J C Els/J A Milner

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**LIST OF SCHEME CREDITORS**


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<b>1. Scheme creditors</b>	<b>Description</b>	<b>Amount (Rand)</b>
Francois Muscat 149 Goodwood Street Kyalami Estates Midrand, 1684	Provision	750 000.00
Sun Microsystems SA (Pty) Ltd Waterfall Edge, Waterfall Park Bekker Street Midrand, 1685	Guarantee of CDP sale	374 760.00
Eurevest Leasing (Pty) Ltd Reg. No. 1978/000001/07 R Price Inanda House 80 Forrest Road Inanda Sandton, 2196	Loan	26 201 634.81
Unclaimed dividends PO Box 1697 Bramley, 2018		8 161.21
Copicor division of Servest (Pty) Ltd Reg. No. 1997/006391/07 PO Box 5697 Rivonia, 2128	Rental agreement	373 764.00
Spartan Computer Rentals (Pty) Ltd Reg. No. 1995/007383/07 PO Box 55357 Northlands, 2116	Rental agreement	2 081.00
Drive Control Services (Pty) Ltd Reg. No. 1995/005933/07 N Rex 154 Sixth Street Wynberg, 2128	Loan	13 337 008.35
Infracom (Pty) Ltd Reg. No. 1995/009410/07 S Rossouw Private Bag X36 Sunninghill, 2157	Loan	4 486 376.56
Citibank N.A. (SA branch) J McMichael 145 West Street Sandton, 2196	Loan	10 000 000.00

**2. Inter-company loans**

	<b>Description</b>	<b>Amount (Rand)</b>
MGX Storage Solutions (Pty) Ltd Reg. No. 1996/007500/07 J Dewar PO Box 1697 Bramley, 2018	Inter-company loan	822 813.36
MGX Enterprise Solutions (Pty) Ltd Reg. No. 1996/013834/07 D Thompson PO Box 1697 Bramley, 2018	Inter-company loan	69 610 660.14
Document & Data Management (Africa) (Pty) Ltd Reg. No. 1981/012354/07 A Traub PO Box 40264 Cleveland, 2022	Call loan	141 043.29
MGX Storage Solutions Professional Services (Pty) Ltd Reg. No. 1996/009501/07 J Dewar PO Box 1697 Bramley, 2018	Inter-company loan	426 316.00
MGX Business Continuity Solutions (Pty) Ltd Reg. No. 1998/002943/07 M Davies PO Box 2638 Midrand, 1685	Call loan	8 491 203.89
Mail Processing Systems (Pty) Ltd Reg. No. 1986/000155/07 A Traub PO Box 40264 Cleveland, 2022	Call loan	3 192 788.02
MGX Outsourcing (Pty) Ltd Reg. No. 1986/003229/07 A Traub PO Box 40264 Cleveland, 2022	Call loan	12 012 835.37
CSX Customer Services (Pty) Ltd Reg. No. 1998/023995/07 A Traub PO Box 40264 Cleveland, 2022	Call loan	22 410 975.34
		<hr/> <b>172 642 421.34*</b> <hr/>



# MGX HOLDINGS LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 1983/012697/06)

Share code: MGX

("MGX" or "the company")

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## FORM OF PROXY

### FOR USE AT MEETING OF FIRST SCHEME CREDITORS

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For the use by the scheme creditors at the meeting ("**the scheme meeting**") convened in terms of an Order of the High Court of South Africa (Witwatersrand Local Division) to be held at 10:00 at 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, on Monday, 19 January 2004.

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I/We

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being a scheme creditor of the company, and having a claim for  against the company, do hereby appoint (see note 1):

1 \_\_\_\_\_ or failing him/her,

2. \_\_\_\_\_ or failing him/her,

3. the chairperson of the scheme meeting,

as my/our proxy to act for me/us and on my/our behalf at the scheme meeting which will be held for the purposes of considering and, if deemed fit agreeing, with or without modification, to the scheme of arrangement ("**the scheme**") to be proposed thereat by MGX and at any adjournment thereof and to vote for or against the scheme in accordance with the following instructions:

In favour of the scheme  
(indicate with an X)

Against the scheme  
(indicate with an X)

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2003/2004

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(Signature)

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Assisted by me (where applicable)

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**Please read the notes on the reverse hereof.**

**Notes:**

1. A scheme creditor is a creditor having claims against MGX determined at the meeting record date for the purposes of the relevant scheme meeting and, where appropriate, determined at the final date for the purposes of the scheme when it becomes applicable, other than the secured creditors and the EC-Hold Limited creditors.
2. A scheme creditor may insert the name of a proxy or the names of two alternative proxies of his/her choice in the space provided, with or without deleting "the chairperson of the scheme meeting".
3. Forms of proxy must be filed with the chairperson in one of the following manner:
  - 3.1 by hand c/o Charl du Plessis at 22 Milkyway Avenue, Linbro Business Park, Linbro Park, Sandton, 2146, by no later than 10:00 on Thursday, 15 January 2004; or
  - 3.2 by post c/o Charl du Plessis at PO Box 1697, Bramley, 2018 by no later than 10:00 on Thursday, 15 January 2004; or
  - 3.3 by facsimile c/o Charl du Plessis at 011 458 6615, by no later than 10:00 on Thursday, 15 January 2004; or
  - 3.4 by handing the forms of proxy to the chairperson no later than 10 minutes before the time for commencement of the scheme meeting.
4. The completion and lodging of forms of proxy will not preclude a scheme creditor from attending the scheme meeting and speaking and voting thereat to the exclusion of the proxy appointed in terms thereof, should such scheme creditors wish to do so.

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## CREDITOR'S CLAIM FORM

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*This form is to be submitted to the Receiver in anticipation of the scheme becoming, or after the scheme has become operative.*

MGX Holdings Limited  
Registration number 1983/012697/06  
("MGX" or "the company")

Telephone No.: (011) 458-6780

Postal address: PO Box 1697  
Bramley  
2018

Physical address: 22 Milkyway Avenue  
Linbro Business Park  
Linbro Park  
Sandton  
2146

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In the scheme between the company and the scheme creditors in terms of section 311 of the Companies Act, 1973 (Act 61 of 1973), as amended, which has been proposed by MGX.

Full name of creditor

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Identity/Trust/Company or CC registration number

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(hereinafter referred to as the "scheme creditor")

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Physical address

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Postal address

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# AFFIDAVIT

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I, the undersigned,

\_\_\_\_\_  
Identity number

do hereby make oath and say that:

1. I am deposing to this affidavit in my personal/representative capacity as a scheme creditor;
2. the facts herein contained are within my personal knowledge and belief, unless the context indicates to the contrary;
3. the scheme creditor has a claim, as defined in the circular to which this claim form is annexed, against MGX for R , which claim may be compromised in terms of the scheme;
4. the claim arose in a manner and at a time set forth in the statement of account annexed hereto marked "Annex 1";
5. no other person (natural or juristic), besides MGX, is liable (otherwise than as surety) for the said claim or any part thereof;
6. the scheme creditor has not, nor has any other person, to the best of my knowledge, on the scheme creditor's behalf received any security for the said claim or any part thereof, save and except for \_\_\_\_\_  
which security I value at \_\_\_\_\_

\_\_\_\_\_  
DEPONENT

The deponent has acknowledged that he/she knows and understands the contents of this affidavit/declaration, which was signed and sworn to/declared before me at \_\_\_\_\_

on this the \_\_\_\_\_ day of \_\_\_\_\_ 2003/2004,  
the regulations contained in Government Notice No. R1258 of 21 July 1972, as amended, and Government Notice No. R1648 of 19 August 1977, as amended, having been complied with.

COMMISSIONER OF OATHS .  
\_\_\_\_\_

FULL NAME  
\_\_\_\_\_

ADDRESS  
\_\_\_\_\_



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## STATEMENT OF ACCOUNT

In terms of the scheme of arrangement between the company and the scheme creditors in terms of section 311 of the Companies Act, 1973 (Act 61 of 1973), as amended, which has been proposed by MGX

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In the case of the claim being in respect of services rendered or goods sold and delivered on an open account, this statement of account should be completed in every respect and attached to the scheme creditor's claim form to which this is Annex "A1".

Name of scheme creditor:

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Identity/Trust/Company or CC registration number:

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Brief description of claim:

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### Details of claim:

Date	Invoice number	Amount	Month totals (not progressive)
<b>Total credits "A"</b>			

### Details of payments received and credits allowed:

Date	Payment or credit	Amount	Month totals (not progressive)
<b>Total credits "B"</b>			

Amount of claims as per affidavit, i.e. "A" less "B".

### NOTES:

- "A" and "B" must reflect full period of trading for a period of 12 months before date of the "A" scheme meeting.
- If no payments were received, or credits given, state "NIL" under "B".
- A brief description of the services rendered or goods sold and delivered must be given.



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**RESOLUTION OF THE TRUSTEES OR THE BOARD OF DIRECTORS/MEMBERS\*  
OF THE ABOVEMENTIONED TRUST/COMPANY/CLOSE CORPORATION\*  
HELD AT ..... ON THE ..... DAY OF  
..... 2003/2004.**

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IT WAS RESOLVED THAT:

1. The scheme creditor lodge a claim, as more fully defined in the circular relating to the scheme between MGX and the scheme creditors in terms of section 311 of the Companies Act, which has been proposed by MGX.
2. That ..... or..... or ..... ("signatory"), be and is hereby duly authorised to settle, execute and sign such notices, certificates and documents, including the "A" scheme creditors' claim forms (collectively, "documents"), as may be required to give effect to Resolution 1 above, including the attendance at all and any meetings or any adjournments thereof pursuant to the scheme, and/or dispatch all documents to be signed and/or dispatched by the signatory under or in connection with and pursuant to Resolution 1 above, to make such amendments, addendums and variations to the documents thereto as the signatory in his/her sole discretion deems fit.

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

\_\_\_\_\_  
Name: \_\_\_\_\_

\*Delete which is not applicable

