

LIQUIDATION SCENARIO CALCULATION FOR MANGO AIRLINES SOC LIMITED (IN BUSINESS RESCUE)



Contents

1. DEFINITIONS AND ABBREVIATIONS	1
2. SCOPE OF INSTRUCTIONS BY THE BRP	2
3. QUALIFICATIONS	2
4. INFORMATION AND DOCUMENTS	3
5. OUR METHODOLOGY	3
6. ASSET REALISATIONS	4
7. COSTS TO BE INCURRED	5
8. DISTRIBUTION TO CREDITORS OF THE NET PROCEEDS	6





1. DEFINITIONS AND ABBREVIATIONS

- 1.1. “the Act” means the Companies Act No. 71 of 2008 as amended, including the Regulations thereto.
- 1.2. “Affected Persons” means affected persons as defined in Section 128(1) of the Act and in relation to the Company means a member, creditor and employees of the Company, including any registered trade union.
- 1.3. “Agents” means individuals or organisations such as, but not limited to, auctioneers with specialised skills, appointed by the liquidators to assist with the effective sale and realisation of some of the assets of the Company.
- 1.4. “Assets” means all the movable and immovable assets of the Company as reflected in the books of account of the Company as at the Commencement Date.
- 1.5. “BRP” means Mr Siphiso Sono appointed as the business rescue practitioner of the Company, as defined in Regulation 126 to the Act.
- 1.6. “Business Rescue Plan” means a proposed business rescue plan together with its annexures prepared by the BRP in terms of Section 150 of the Act 71 published in 2008.
- 1.7. “Claims” means as defined in the Business Rescue Plan, the secured, preferent or concurrent claims as envisaged in the Insolvency Act, against the Company the cause of action in respect of which arose prior to or on the Commencement Date.
- 1.8. “Commencement Date” means the date upon which the business rescue proceedings for the Company commenced, 28 July 2021.
- 1.9. “Company” or “Mango” means Mango Airlines SOC Limited (In Business Rescue), duly incorporated in accordance with the laws of the Republic of South Africa.
- 1.10. “Concurrent Creditors” means creditors having concurrent claims against the Company, as envisaged in the Insolvency Act.
- 1.11. “Firm” or “We” means SNG Grant Thornton Advisory (Pty) Ltd.
- 1.12. “Creditors” means all legal entities, including natural persons, having claims against the Company as at the Commencement Date as envisaged in the Insolvency Act.
- 1.13. “Determination” means this fair and reasonable estimate of the return that Creditors in their respective classes may be expected to be received were the Company to be liquidated as at the date of the publishing of the BR Plan, fully summarised in Annexure A.
- 1.14. “DPE” means the Department of Public Enterprises of South Africa.
- 1.15. “Independent creditor” means a person who:
 - is a creditor of the company, including an employee of the company who is a creditor in terms of section 144(2) and
 - is not related to the company, a director, or the BRP.
- 1.16. “Insolvency Act” means the Insolvency Act No 24 of 1936.
- 1.17. “Liquidator” includes a provisional liquidator and means one or more individuals appointed as such by the Master of the High Court.



- 1.18. “Preferent Creditors” means Creditors having preferent Claims as envisaged in terms of the Insolvency Act.
- 1.19. “Proceedings” means the business rescue proceedings in respect of the Company as provided for in Chapter 6 of the Act.
- 1.20. “SAA” means South African Airways SOC Limited Group, the Company’s holding company, which is wholly owned by National Treasury, a South African Government National Department.
- 1.21. “SARS” means the South African Revenue Services.
- 1.22. “Secured Creditors” means creditors having secured claims as envisaged in the Insolvency Act.
- 1.23. “VAT” means Value Added Tax, as levied under the Value Added Tax Act No 89 of 1991, amended.

2. SCOPE OF INSTRUCTIONS BY THE BRP

The BRP mandated us to independently consider, assess and determine the probable dividend that would be received by Creditors, in their specific classes, if the Company was to be placed in liquidation on 28 July 2021.

3. QUALIFICATIONS

- 3.1. This report is prepared solely for the information of the Affected Persons to the Proceedings and the BRP.
- 3.2. In arriving at our determination, we have accepted and relied on representations and the authenticity of various documents and information provided to us by the BRP.
- 3.3. We have not performed any verification and/or authentication of any documentation received during this engagement. Accordingly, our work did not constitute an audit or review in terms of International Standards on Auditing or International Standards on Review Engagements.
- 3.4. For purposes of determining the details of the Company’s assets, we relied exclusively on the information extracted by the BRP from the accounting records of the Company and provided to us.
- 3.5. We reserve the right, should it come to our attention that material information has been withheld and/or is materially defective and/or additional information is brought to its attention, to amend this Determination.
- 3.6. Should it become necessary to make representations and documents referred to herein admissible for the purpose of Court proceedings, we would have to confirm and independently verify the various representations, documents and information relied on in this Determination for the purposes of such proceedings.

4. INFORMATION AND DOCUMENTS

We perused the following information and documents which were made available to us in order for us to perform the liquidation calculation:

- 2021 draft, unaudited financial statements;
- 2020 draft, unaudited financial statements;
- Creditors listing as at commencement date;
- Creditors age analysis as at commencement date;
- Management accounts as at 31 July 2021;
- Pre-commencement arrear salaries;
- Employees leave pay amounts as at commencement date;
- Severance pay calculations as at commencement date;
- Summary of leases (which we understand was summarised the by Cliffe Dekker Hofmeyr Inc legal firm); and
- Redelivery acknowledgement for Aergen.

5. OUR METHODOLOGY

We have, for purposes of this Determination and the calculations contained herein:

- 5.1. Accepted that the amounts owing to Creditors as provided by the BRP are the true value of Claims against the Company. The classification of a creditor as an independent creditor is the responsibility of the BRP and was not relevant to us for the purposes of our Determination;
- 5.2. Met with BRP and his team regarding their investigations into the affairs of the Company, accepting their views regarding any undue preferences or the likelihood of any directors/officers of the Company being held accountable for the debts of the Company, as provided for in terms of the Act;
- 5.3. For purposes of the Determination, we have done the calculations that would ordinarily have been done in the preparation of a Liquidation and Distribution account in terms of the provisions of the Insolvency Act had the Company been liquidated at the Commencement Date. A detailed liquidation and distribution account is attached as Annexure A;
- 5.4. For purposes of this Determination, we have assumed that the Liquidator will dispose of all existing assets with the assistance of Agents for the benefit of creditors; and
- 5.5. We have also assumed that the Liquidator will continue to employ key employees of the Company for an estimated three months to assist with the required accounting and other administrative tasks.



6. ASSET REALISATIONS

6.1. *Property, Plant & Equipment*

PPE has been valued and included in these calculations at a forced sale value. Where no valuations are available, a percentage of 50% of book value is assumed.

6.2. *Intangible assets*

These intangible assets are excluded as part of estimation of liquidation value, therefore no asset realisation. We have assumed that no value can be realised from these intangible assets.

6.3. *Prepayments*

Considering the information supplied to us, we have assumed a recoverable percentage of 20%.

6.4. *Maintenance Reserve Asset (relates specifically to the aircraft engines)*

Considering the information supplied to us and discussions with the BRP and management, all of the Company's operating lease agreements require the Lessee to pay for both known and unknown maintenance events which occur during the lease term. The maintenance reserve is therefore intended to provide protection for the Lessor in respect of these maintenances. Maintenance reserves payments essentially become the property of the lessor immediately on payment and the lessor will be at liberty to mix the amounts paid with its own cash resources. Maintenance reserves can only be used for the specific maintenance event they are designated for and in case of liquidation (treated as a default) these funds are not refundable. Therefore there is no asset realisation.

6.5. *Inventory*

Inventory has been included at an assumed percentage of 50% of book value.

6.6. *Other Financial Assets*

Considering the information supplied to us and confirmations from the BRP and management, no claim was submitted to SAA during SAA's business rescue proceedings and therefore these monies are not recoverable and therefore no asset realisation is estimated.

6.7. *SARS VAT Refunds*

Considering the information supplied to us, no asset realisation is assumed as the amount is in dispute and dependent on the outcome of the VAT audits to be conducted by SARS.

6.8. *Cash & Cash Equivalents*

Actual amounts per the books and records of the company are used in this respect.

7. COSTS TO BE INCURRED

The Liquidator will appropriate the gross proceeds of the realisation and recovery of the assets as follows:

7.1. Firstly, towards liquidation costs:

7.1.1. **Liquidators' fees** at rate representing a statutory percentile-based calculation as provided for in terms of Tariff B to Appendix II to the Insolvency Act;

7.1.2. **Master's fees** on the basis of what is permitted in and as provided for in terms of the Insolvency Act and

7.1.3. **Bond of Security Premium** on the basis of what is permitted in and as provided for in terms of the Insolvency Act, for a period of 2 years.

7.2. Thereafter, to the costs incurred during the **administration of the Estate**:

7.2.1. Salaries and wages in respect of the employees temporarily retained by the Liquidator to assist in the realisation of assets and administrative attendances relating to the financial records during the liquidation period;

7.2.2. Agent's commission at a negotiated rate including marketing, removal and other associated cost incurred in the realisation on the gross realisation of the assets; and

7.2.3. Legal fees incurred in the collection of the accounts receivable and the appointment of attorneys to assist the liquidators in all matters related to the winding up of the estate.

8. DISTRIBUTION TO CREDITORS OF THE NET PROCEEDS

- 8.1. We are not aware of any secured creditors; therefore, all asset realisations will be for the benefit of preferent and concurrent creditors.
- 8.2. In terms of the provisions of Section 98A of the Insolvency Act, certain creditors of the Company enjoy rights in preference to other creditors from the net proceeds of the unencumbered (free residue) assets. We have determined the extent of these preferences and in its estimation:
- Employees will receive payment to the full extent of their calculated preference for their pre-business rescue claims in the amount of R 19 551 150. (Per section 98A of the Insolvency Act, the maximum amount per employee is R28 000 and which ranks as a preferent claim). The balance of employee claims will, upon the liquidation of the Company, rank as Concurrent Creditors;
 - Pre-business rescue amounts due to SARS in the amount of R 131 707 899 and in terms of the provisions of Section 99 the Insolvency Act SARS enjoys a preference, after former employees for their statutory claims, for this claim above all other Concurrent Creditors. SARS will receive payment to the extent of money available for distribution; and
 - Funding from SAA/DPE - Once business rescue proceedings have commenced, post commencement financiers rank as preferent creditors after BRP costs and employees who are owed money by the Company. However, based on our discussions with the BRP and management, the funding from SAA/DPE does not constitute Post Commencement Funding (PCF) as these funds were injected into the Company through subscription of shares. The Special Appropriations Act also requires that these funds are applied as working capital and restructuring costs and there is no contemplation that if the company were to be liquidated the funds would be made available. Furthermore, the DPE is entitled to redirect the earmarked funds to any other SAA subsidiary in the event of liquidation. We have therefore not included the funds as income in the free residue account.
- 8.3. Concurrent creditors are estimated to total R 2 725 773 461 and this amount includes the concurrent portion of staff claims. The amount also includes provisions and estimates in regard to lease break liabilities, damages claims and other contingent liabilities. Nil recoveries for concurrent creditors is estimated, this may therefore result in a 'contributing' liquidation should concurrent creditors submit their claims.

PRELIMINARY ILLUSTRATIVE LIQUIDATION OUTCOME

Creditor	Nature	Total claim (R)	Percentage of total claims	Estimated award (R)	Recoveries (Cents)	Shortfall (R)
SECURED CREDITORS						
None	N/A	-	0.0%	-	-	-
Total secured creditors		-	0.0%	-	-	-
PREFERENT CREDITORS						
Employees	Employees	19,551,150	0.7%	19,551,150	100.00	-
South African Revenue Services	Government	131,707,899	4.6%	39,352,683	29.88	92,355,215
Total preferent creditors		151,259,049	5.3%	58,903,833		92,355,215
CONCURRENT CREDITORS						
Employees	Employees	135,027,744	4.7%	-	-	135,027,744
Aergen Aircraft Five	Lessor	84,605,001	2.9%	-	-	84,605,001
Macquarie Aircraft Leasing	Lessor	477,893,985	16.6%	-	-	477,893,985
Start Island Leasing	Lessor	140,793,409	4.9%	-	-	140,793,409
Celestial Aviation Trading 41	Lessor	133,959,015	4.7%	-	-	133,959,015
Other Lessors	Lessor	5,016,653	0.2%	-	-	5,016,653
Airports Company South Africa	Facilities	170,351,525	5.9%	-	-	170,351,525
Airport handling, navigation & weather	Facilities	86,915,713	3.0%	-	-	86,915,713
South African Airways Technical	MRO	805,858,856	28.0%	-	-	805,858,856
Lufthansa Technic AG	MRO	290,430,462	10.1%	-	-	290,430,462
Lufthansa Technic AG	MRO	6,808,481	0.2%	-	-	6,808,481
Others	Others	388,112,616	13.5%	-	-	388,112,616
Total concurrent creditors		2,725,773,461	94.7%	-		2,725,773,461
TOTAL		2,877,032,510	100.0%	58,903,833		2,818,128,677

Total aggregate creditor realisation in an illustrative liquidation outcome as at 28 July 2021:

Notes

1. The summary above reflects illustrative recoveries and creditor awards from the standalone Mango Airlines SOC Limited liquidation.
2. The outcome above is predicated on the position as reported on the management accounts dated 31 July 2021.
3. Net present value adjustments have not been incorporated - given the complexities of such a business, we would anticipate the duration of a liquidation of Mango to last between one and two years.
4. The above summary illustrates that Concurrent Creditors will be required to make a contribution should they lodge their claims in liquidation.

A summary of estimated distributions is attached as Annexure A.

Signed on 27 October 2021.



Anoosh Rooplal CA(SA), RA
Director: Restructuring and Insolvency
SizweNtsalubaGobodo Grant Thornton Advisory Services

T: +27 (0) 11 231 0600



sng-grantthornton.co.za

© 2020 SNG Grant Thornton - All rights reserved.

"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. SNG Grant Thornton is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.