KAP INDUSTRIAL HOLDINGS LIMITED

COVID-19 update

22 April 2020

The Coronavirus (COVID-19) pandemic continues to impact all aspects of global society with serious ramifications for the global economy. President Ramaphosa recently announced a state of disaster and imposed a 21-day national lockdown (Lockdown) in South Africa, commencing at midnight on 26 March 2020, in order to combat the spread of Coronavirus. The period of the Lockdown was extended by an additional two weeks. We believe that our president has shown great leadership and has made the right decision in terms of the Lockdown. KAP will comply fully with the Lockdown requirements.

KAP continues to monitor the impact of the COVID-19 pandemic on its various businesses, its people and surrounding communities. In response, KAP has introduced appropriate actions to deal with the broader sustainability implications that COVID-19 gives rise to.

Firstly, in order to ensure a healthy working environment for its employees, KAP has implemented various monitoring and protective measures for employees who are continuing to work in essential services as defined in legislation. Further monitoring and protection measures are planned for all employees on their return to work after the Lockdown. In terms of ongoing monitoring, five KAP employees have tested positive for COVID-19 and were suitably quarantined. To date, three of these employees have made a full recovery.

Secondly, it is expected that the prescribed five-week Lockdown in South Africa will have a significant negative impact on the economy and business activity in general. It is unlikely that any business in South Africa will escape the negative impact of a partial or complete restriction of activity for this prolonged period. KAP is not immune to this risk and as a result has implemented responsive actions to reduce operating costs and to preserve cash resources in order to ensure the continued operation and sustainability of its various businesses. All non-essential expenditure and uncommitted capital expenditure has therefore been suspended and actions have been implemented to optimise working capital.

Finally, in view of the recent extension of the Lockdown period and in order to avoid widespread job losses through mass retrenchments resulting from an expected slow and staggered start-up of economic activity after the Lockdown, additional measures have, after careful consideration, been implemented to safeguard our business and its stakeholders. While we regret the impact these actions will have on our staff and their families, we trust that implementing the following measures will mitigate the need for more severe actions at a later stage.

- A 20% reduction in salaries of all non-bargaining unit employees has been implemented for a period of three months. In order to soften the impact of the abovementioned 20% reduction in salaries, application has been made to relevant provident funds to exempt employer and employee contributions for the relevant period. All pension/provident fund contributions that relate to ‘risk cover’ will remain in place and medical aid-related contributions will remain unaffected.

- No annual inflationary salary increases will be awarded to non-bargaining unit employees in relation to the period from 1 July 2020 to 30 June 2021.
- No performance-related incentives will be paid to any employees in relation to the 2020 financial year, including the Annual Incentive Bonus Scheme, Share Rights Scheme and Long-Term Incentive Scheme and including any non-financial performance measures.
- Negotiations have been initiated through relevant Bargaining Council and Union structures in order to affect the following:
    - Wage increases not yet agreed or implemented will be postponed for twelve months.
    - Where wage increases have already been implemented, the suspension of all non-financial benefits for twelve months.

Current forecasts indicate that KAP will remain in a position to meet its debt obligations as they fall due and to operate within its debt covenants. Management will continue to monitor the situation very closely and wherever possible will implement additional actions necessary to mitigate liquidity risk.

In the coming months, society will experience widespread social, political and economic ramifications as a consequence of the global COVID-19 pandemic. KAP operates in diversified industry sectors, employing state-of-the-art assets that are expertly resourced by competent employees, and supplies key products and services to a wide range of customers for use in everyday applications. KAP is therefore well placed to navigate the economic shocks brought about by COVID-19.