



I N C A

Ref: JHM

30 June 2000

The Town Treasurer
Uitenhage TLC
P O Box 31
Uitenhage
6230

Attention: Mr Philip Nel

Dear Sir

CONFIRMATION OF ROLL-OVER OF LOANS

We refer to INCA's offer letter dated 2 June 2000 as accepted by Council on 5 June 2000. We confirm that the transaction has been concluded as follows:

Details of the Transaction

INCA purchases a bond certificate from the Uitenhage TLC to the amount of R 8 000 000.00. The maturity date is 30 June 2011. The coupon rate of the bond certificate is 16,90% NACH. The effective date is 30 June 2000. Interest payments must be made on 30 June and 31 December each year. The first payment will be R 676.000-00 on 31 December 2000, and thereafter R 676.000-00 six-monthly.

Uitenhage TLC must deposit an amount of R 1.741.939-87 with INCA on 30 June 2000, which will serve as security of the capital obligations of the TLC. INCA will also accept this deposit as full payment of the capital on maturity for as long as the TLC meets its interest payments on R 8 million. Should the TLC default on interest payments the TLC will thus only be liable for the interest on the bond of R.8 million and the portion of the capital amount set off against the value of the deposit at that point in time.

Bond Certificate

INCA confirms having received the bond certificate reflecting the details of the transaction.

We thank you for accepting Inca's offer and trust that the transaction has been concluded to your satisfaction.

Kind Regards


James Mollentze
Portfolio Manager

12th Floor
66 Sauer Street
Johannesburg 2001
P.O. Box 1153
Johannesburg 2000
Tel: (011) 352-3455
Fax: (011) 352-9678

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7. LOAN FUNDING FOR CAPITAL PROJECTS

[5/4/B]

7.1 Purpose

The purpose of this report is to inform Council of the progress made in the attempts to obtain loan funding to the amount of at least R10m for the funding of approved capital projects and to obtain approval to take up the loan as proposed by INCA.

7.2 Background

Council decided at a meeting held on 26 March 1998 that the Town Treasurer must continue with attempts to obtain loan funding to fund projects which were approved on the capital budget. At a Council meeting held on 4 August 1998 council approved that the Treasurer be authorised to obtain a loan of R10m.

A comprehensive report served before Council on 10 September 1998, where it was reported that applications for a loan was made to various banking institutions. Only two banks responded positively but subject to certain conditions. However, Future Bank Corporation required a lump sum investment equal to the loan as collateral security. Council therefore, approved a loan from New Republic Bank of R10m. The ceding of sinking fund insurance policies as collateral for the loan was still being negotiated when New Republic Bank was placed under the management of a curator. Both these options are therefore no longer available, whilst Council's Capital Budget is in the mean time being executed.

The Infrastructure Finance Corporation Limited (INCA) was subsequently approached for a loan. On 15 March 1999, they approved a credit facility of R16m for Council, based on certain conditions. In brief, the conditions for this loan are as follows:

1. A loan of R16m is approved repayable over 10 years.
2. Council is required to deposit an amount of R4m, of the R16m, with INCA as security. The growth on this deposit will be sufficient to redeem the full capital amount of R16m on maturity of the loan.
3. Council will be liable for, and is required to pay the interest only on the full loan of R16m, payable at sixmonthly intervals;
4. Council will comply with all environmental legislation.
5. The final interest rate will be determined on the date of the agreement. At the time of the approval, the interest rate offered is 17.20%, but should be lower after the recent reduction in interest rates. This interest rate is regarded as acceptable under present conditions where local authorities cannot obtain any loan funding.

7.3 Conclusion

Council is now in desperate need of funding for its already approved (and in most cases committed) capital projects and in particular those projects which are not being funded by the Development Bank or the Western District Council. Provision for capital charges for repayment of capital loans has been made on the operating budget.

Council has not been able to obtain any loans on the open market since the R5m in 1995, except for the Development Bank loans for specific infrastructure projects.

It furthermore, appears that the loan funding from INCA is immediately available. At this stage no other bank is prepared to grant a loan to Council and it is recommended that this facility from INCA be accepted.

In terms of legislation, Council has to adhere to certain conditions and criteria for the raising of loans. These conditions, under section 10G (8)(a)(i) of the Local Transitional Act, 1993 (Act no 209 of 1993) and the Government Gazette dated 27 March 1999, determine that the resolution must specify the following:

1. The amount:

The amount of the loan to be taken up is R16 000 000.

2. The purpose of the loan:

The purpose of the loan is to finance the capital projects as approved on Council's 1998/99 Capital Budget.

3. The redemption conditions of the loan:

The loan will be redeemed over a period of ten years. An amount of R4m, from the R16m, will be invested with INCA, which will serve as security for the capital obligations. INCA will accept this deposit and the growth thereon, as full payment of the capital on maturity. Council will therefore, only be liable for the interest payments on the loan of R16m.

4. Is a discount or premium applicable to the loan:

No discount or premium is applicable to the loan.

5. The interest rate applicable to the loan:

The interest rate as per the offer dated 15 March 1999 is 17.2%. This interest rate will however change and will be finalised on the date of the agreement. Interest rates are declining and the rate should therefor be lower.

6. The source of the loan:

The loan is obtained from Infrastructure Finance Corporation Limited (INCA).

7. Any other special conditions attached to the loan:

- (i) Council must comply with the Environment Conservation Act, No 73 of 1989.
- (ii) If Council is in default in the payment of any amounts, such unpaid amount will bear interest at 20% or prime plus 2% per annum, whichever is the highest.

In view of the fact that Council's loan application to New Republic Bank as approved by Council on 10 September 1998, was not successful and the fact that capital funding is urgently required:

- a. That a loan of R16m be taken up from INCA on the conditions as per paragraphs 1-6 above. (Full details as per attached letter from INCA).
- b. That the Town Treasurer be authorised to sign all the required documentation on behalf of Council.
- c. That a general notice be placed in a local newspaper of council's intention to take up the loan, as required in terms of law.

FOR COUNCIL'S CONSIDERATION

Mr P Nel – Treasury Department

1206



I N C A

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 66 Sauer Street
 Johannesburg 2001
 P.O. Box 1153
 Johannesburg 2000
 Tel: (011) 352-3455
 Fax: (011) 352-9678

Ref: JHM

2 June 2000

The Town Treasurer
 Uitenhage TLC
 P O Box 31
 UITENHAGE
 6230

Attention: Mr Phillip Nel

Dear Sir

OFFER TO ROLL OVER STOCK LOANS

1. Introduction

We refer to your letter dated 30 May 2000 confirming Council's approval of INCA's offer to extend the maturity dates of the loans due on 30 June 2000. INCA herewith submit our formal offer to extend the maturity dates of loan numbers UTH100MA-S for R 3 million and UTH100MB-S for R 5 million.

2. Details of the Offer

INCA will extend the maturity dates of the loans to 30 June 2011. In order to achieve this Uitenhage TLC will issue a new stock certificate to INCA of which the details are as follows:

Face Value:	R 8 000 000-00
Maturity Date:	30 June 2011
Date of Issue:	30 June 2000
Coupon Rate:	16,90%
Coupon Payment Dates:	30 June and 31 December (see attached schedule)

Handwritten initials and signature:
 [Signature]
 [Handwritten 'Call']
 [Handwritten 'H']

3. Conditions

The following conditions are attached to this offer:

- 3.1 . Uitenhage TLC must deposit an amount with INCA on 30 June 2000, which will serve as security of the capital obligations of the TLC. INCA will also accept this deposit as full payment of the capital on maturity. The TLC will therefore only be liable for the interest on the loan of R 8 million. The size of the deposit depends on capital market conditions on the date of the deposit, however this will only be finalised in consultation with your Mr Nel.
- 3.2 Uitenhage TLC undertakes (which it will be deemed to have done by acceptance of this offer) to comply with all environmental legislation (which includes, but is not limited to, the Environment Conservation Act, No.73 of 1989, any legislation passed pursuant to or envisaged in section 24 of the Constitution of the Republic of South Africa, any provincial ordinances and the common law). The Council undertakes (which it will be deemed to have done by acceptance of this offer) to indemnify INCA and all its directors, employees and officials in respect of any and all claims, penalties, fines or forfeitures, of whatever nature, arising from a breach of the above undertaking.
- 3.3 If Uitenhage TLC is in default in the payment of any amounts in terms of the loan, then without prejudice to INCA's rights as a result of such default, such unpaid amount will bear interest at 20% per annum or at FNB's prime rate plus 2 percent whichever is the higher, from date to date of payment thereof, both inclusive.
- 3.4 Should Uitenhage TLC default in any payment due in terms of the loan, or be in default in respect of any obligations to any third party in respect of borrowed monies, or should in the opinion of INCA a material adverse change occur in relation to the legal status or financial affairs of Uitenhage TLC, INCA will have the right to claim immediate repayment of all amounts due in respect of the bond against tender of the bond to Uitenhage TLC. Interest will be deemed to accrue on a day to day basis and accrued interest will be due when such claim is made. For purposes hereof, the incorporation of Uitenhage TLC into the Port Elizabeth Metropolitan Council as envisaged by the Municipal Demarcation Board, will not be viewed as a material adverse change.
- 3.5 A certified copy of the Uitenhage TLC Resolution authorising Uitenhage TLC to issue the bond on the terms and conditions as stated in this letter as well as authorising the relevant officials to sign on Uitenhage TLC's behalf must be provided prior to INCA purchasing the bond.

4. ACCEPTANCE

Should Uitenhage TLC accept this offer, please confirm by signing the acceptance hereunder, and return by fax to INCA on (011) 352-9678. On receipt of acceptance of this offer, INCA

reserves the right not to conclude the transaction at the quoted interest rate should capital market rates have moved to the extent that INCA's margin is affected negatively. Council will be informed without delay should that be the case.


We include a schedule of coupon payments that will be applicable for the bond.

Kind Regards


James Mollentze
Portfolio Manager


Attie van Zyl
Executive Director

Offer dated 2 June 2000 accepted by Uitenhage TLC

Signed	:	
Name	:	<u>P. J. VAN ROOY</u>
Designation	:	<u>TOWN TREASURER</u>
Date	:	<u>5/6/2000</u>