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9 March 2016

Mike Nicols
Exchange Control Specialist
Head Office Exchange Control
ABSA

Dear Mike

FORMAL APPLICATION FOR THE APPROVAL OF THE ESTABLISHMENT OF DENEL ASIA CO.LIMITED IN HONG KONG AND DENEL INDIA IN INDIA

1. PURPOSE

To request approval from the Exchange Control for the establishment of:

1.1 Denel Asia as a joint venture company in Hong Kong which company will facilitate the legitimate securing of contracts in the Asia-Pacific region; and

1.2 Denel India as a joint venture company in India in order to, inter alia, give effect to the procurement legislation in India.

2. BACKGROUND

Denel's growth strategy is based on, inter alia, making inroads into global target markets. The current Denel strategy, based on the internal strengths and weaknesses as well as a regional analysis, is to actively pursue opportunities in the Asia-Pacific market in which Denel has been active since the early 1990's, particularly the Indian market.

2.1 The reasons for Continent Specific vs Country Specific Arrangement and preference for Hong Kong

2.1.1 Hong Kong is strategically located for business in Asia and can really be seen as the best gateway for doing business in that jurisdiction.

2.1.2 Conducting general business in Hong Kong is simple and setting up offices and structures are quick and inexpensive.

2.1.3 Foreigners can own 100% of a Hong Kong company and are free to be the sole directors and shareholders of a Hong Kong company. There are no local resident requirements and there are no restrictions on nationality.

2.1.4 A Hong Kong company offers global recognition and is very stable. Hong Kong is one of the world's major trading, finance and service centres.

2.1.5 To open a Hong Kong company, you don't need a physical address in Hong Kong and your physical presence in Hong Kong is not required

2.1.6 Hong Kong adopts a territorial source principle of taxation meaning that all profits generated outside of Hong Kong are tax free and profits generated inside Hong Kong are taxed at 16.5%.

2.1.7 The legal system in Hong Kong is still ruled by British law.

REGIONAL STRATEGY

2.2 Studies Undertaken

Rapid and uneven economic development across 25 countries and regions of the Asia-Pacific region both enables and demands new approaches to national defence. By 2018, as global defence spending increases by 5.5 percent, defence budgets across the Asia-Pacific (excluding the US) are expected to grow by over 19 percent (Asia Pacific Defence Outlook 2015 – Deloitte report).

Rapid economic development has also created new sources of vulnerability. While the advancements are essential for developed economies, they require governments to plan for their defence, driving defence budgets and technical requirements upwards and increasing security threats have led to substantial increases in defence spending.

Increasing Global terrorism is also playing a major role in this region. Five Asia-Pacific countries – Pakistan, Philippines, India, Thailand and Bangladesh – accounted for 36 percent of the rise in global terrorist incidents between 2004 and 2013, and 97 percent of the increase within Asia-Pacific. While actual incidents of terrorism remain concentrated in a few nations, regional concerns about terrorism are increasing as Islamic State-related attacks and propaganda proliferate. This also leads to increased defence spending.

Asia-Pacific defence budgets increasingly emphasize procurement and research and development, as nations develop indigenous defence industrial bases and pursue advanced defence technology. Procurement and R&D are projected to grow by 29% and 28% respectively from 2014 to 2018, reflecting plans for major new acquisitions in most countries in the region.

Procurement Budget Increases by country

Country	% Increase (2014-2018)	Growth Focus
India	25	Develop Industrial base. Land Based systems Artillery and Infantry weapon systems. Air Defence programs
Singapore	18+	Technology Partners
Cambodia	18+	R&D and Industry development focus.
Indonesia	18+	R&D and Industry development focus. Land Based systems
Pakistan	11	Not Publicly published. Based on current requests. Air Defence and Artillery focus
Vietnam	18+	R&D and Industry development focus. Land Based systems and Air Defence
Philippines	85	R&D and Industry development focus. Land Based systems and Air Defence.

By 2018, rapidly-developing Asia-Pacific nations will command more than half of non-US global defence procurement and two-thirds of non-US defence research and development, making the region a key defence market, and a potent force in defence technology innovation and advancement. Therefore, Denel needs to be in this space.

2.3 Strategic Relevance of Asia

Countries such as India, Indonesia, Singapore, Thailand, Vietnam and China are considered to be primary target markets for Denel whilst markets such as the Philippines, Myanmar, Sri Lanka and Bangladesh form secondary target markets.

In analysing the Denel business in the Asia Pacific region, the following emerged to Denel management as barriers to entry into this fast growing market:

- lack of multilateral defence relationships;
- inability to provide funding solutions;
- inability to source local production and development partners (particularly in India);
- frequent engagement with end user and industry from a distance not feasible;
- company visibility in the market place/region from a distance not possible;
- need for a lawful conduit for developing/Aligning with local business networks; and
- active participation in regional initiatives from a distance are not feasible.

It is intended that Denel Asia is to establish a footprint in the Asia-Pacific market so as to mitigate the costs and risk of a new market entry and to address the above barriers to entry into these markets.

Denel Asia Management will adopt a risk sharing model which will entail Denel Asia entering into various joint venture companies in the abovementioned primary and secondary target markets where the opportunities exists and subject to the local legislation in the different regions. The initial joint venture to be entered into with Denel Asia will be with a local industry company in India as more fully explained in paragraphs 3 and 4 below.

2.4 Hong Kong as the Country of Incorporation for a Private Limited Company

The salient business requirements for Hong Kong particularly with respect to undertaking business in this jurisdiction is set out in paragraph 3 below. In essence, the financial, regulatory and legal requirements are substantially similar to that applicable to companies in South Africa.

3. COMPREHENSIVE DUE DILIGENCE REPORT ON THE FINANCIAL REGULATORY LEGAL REQUIREMENTS AND REGULATORY LAWS GOVERNING FOREIGN OWNED ENTITIES IN HONG KONG

3.1 Hong Kong

Denel has been advised that:

- Hong Kong is situated in the south-eastern coast of China. With a total area of 1104km2. The territory comprises Hong Kong Island, Kowloon Peninsula, and the New Territories, which also includes 262 outlying islands.
- Hong Kong became a Special Administration Region of the People's Republic of China on 1 July 1997, after a century and a half of British colonial administration. Under the "one country, two system" policy and constitutional documents, the Basic Law, Hong Kong's existing economic, legal and social systems will be maintained for at least 50 years. Hong Kong does however enjoy a high degree of autonomy except in defence and foreign affairs.
- While the People's Republic of China follows a civil law system, Hong Kong's legal system is based on the traditions of its former colonial master, England. As such, English common law continues to have sway. As in the British system, lawyers are either solicitors (handling paperwork, negotiations, and settlements) or barristers (who

can appear in court). The Hong Kong "Basic Law" functions as Hong Kong's constitution, subject to interpretation by the Standing Committee of the National People's Congress.

- The Basic Law of Hong Kong ensures Hong Kong's autonomy in its executive, legislative, and judicial systems, as well as certain foreign relations. It protects freedom of expression, assembly, and religion, forbids torture and unwarranted searches, seizures, and arrest. Furthermore, Hong Kong is ardently capitalist, in spite of Mainland China's (nominal) adherence to socialism.
- Every year since 1995 to about 2013, Hong Kong was voted the world's most free economy by the Heritage Foundation and the Wall Street Journal's Index of Economic Freedom. It also has one of the lowest tax rates in the world. According to studies conducted by PricewaterhouseCoopers and the World Bank Group, Hong Kong is the fourth-easiest place in the world to pay taxes, just behind three countries in the Middle East.
- Hong Kong is ideally located in the heart of Asia and serves as a gateway to and from Mainland China amongst others. These advantages make Hong Kong an attractive place for foreign investors.
- The Companies Ordinance (the "CO") is the main piece of legislation governing companies in Hong Kong.
- Establishing a Private Company

There are two ways of establishing a private company in Hong Kong which is either by incorporating a new company or buying a shelf (or existing) company.

- Incorporation involves applying to the Companies Registry, which then issues a certificate of incorporation within four working days after submission of the application by post (online applications may be processed within an hour). The newly incorporated company then needs to be activated by holding its first board meeting and a shareholders' meeting, if necessary.
- Buying a shelf company is useful when a company is urgently needed. One just needs to acquire a shelf company and then activate it by effecting a change of shareholders and directors and holding a board meeting (and a shareholders' meeting, if necessary).

3.2 Denel's History in India

Denel entered the India market during 1994 with a wide range of products. During the period 1998 and 2005, Denel participated in tenders issued by the Indian MOD and were successfully awarded contracts for various products including ammunition and land systems products.

These contracts were for the supply of ammunition, explosives, anti-materiel rifles, fuses and other munitions components such as base bleeds and modular charge systems totaling circa US$ 282 623 768.00.

Some of these transactions included the transfer of technology for the relevant products sold to the Government of India.

A contract for a significant artillery program for a tracked self-propelled gun resulted in a successful trial being concluded during July 1999 to February 2000 which included the introduction of the G6. The costs of these trials exceeded R500 million. Contract negotiations commenced in February 2003 and were concluded in December 2003 with a contract value of US$ 1,180,744,682.

On 17 April 2005, an article appeared in the Cape Argus newspaper alleging that Denel had contravened specific Indian legislation. Notwithstanding the lack of proof thereof and Denel's denial that it was in breach of the MOD contracts, the MOD issued a notice of termination of the defence programs and instituted legal proceedings against Denel which resulted in, inter alia, protracted arbitrations. Contracts to the value of US$ 77,3 million were adversely affected by these actions. Denel was effectively treated in India as if it were blacklisted notwithstanding no formal blacklisting being in force, but Denel was cleared of any wrongdoing in 2015.

Since Denel's absence from the market, the procurement rules changed significantly on major programs. In particular, it introduced the requirement for a local Indian Industry partner/s based on the "Buy Make India" procurement program. This mandatory requirement combined with Denel's previous unsuccessful attempts to access and remain successful in the Indian market reconfirmed the need for Denel to identify and rather proceed with a local partner in India as opposed to its own.

3.3 Buy Make India

The India "Buy Make Program" requires that local content should be more than 50% as well as inclusion of technology transfer from the foreign Original Equipment Manufacturer (OEM).

Denel is positioning itself for major programs in India which programs are premised on the 'Buy Make India' concept. This means that only Indian Companies that can prove that they have partnered with "foreign technology companies" are allowed to bid as prime contractors.

The Indian procurement process demands a strenuous and protracted product evaluation process which can become extremely costly.

3.4 India Remains a Lucrative Market

Despite Denel's previous lack of success in the India market, due largely to circumstances outside its control, the Asia Pacific region and specifically the Indian market remains a lucrative market.

3.5 Value proposition of VR Asia

As previously indicated, a decision was initially taken (prior to VR Laser Asias approach) not to re-enter the India market given the informal blacklisting and having not been in the market for a significant length of time.

It is evident that, in order to be successful on any major defence program in the world, there needs to be a balanced strategy which encompasses, inter alia, the following:

3.5.1 A defence solution that supports national objectives

The VR Asia proposition brought an understanding on national objectives at an industry level and industry knowledge in the form of a well-established, highly respected and highly successful India partners being PIPAVAV and the Adani Group. The Adani Group is an Indian multinational conglomerate company. It has a diversified business portfolio covering resources, logistics, agribusiness and energy supply. The company was founded in 1988 as a commodity trading business. The founder and Chairman, Mr Gautam Adani is a well-established business man and has vast knowledge of setting up significant programs. Similarly, PIPAVAV is a reputable Indian company which operates in the armament industry with knowledge of the Indian market.

3.5.2 Compliance to the user specification with a competitive value proposition

The VR Asia proposition at this level is again industry knowledge, setting up the not so obvious contenders in a business venture. As indicated above, Denel's initial evaluation of possible partners was unsuccessful as the main contenders were already committed or not willing to share the risk. Through, for example, the Adani business partners in India as well as risk sharing by Indian partners such as PIPAVAV during the pre-contracting phase of the program, participation will be possible. The value proposition in the bidding process will be an Indian solution with local content growing new contenders and establishing new technologies as directed by policy.

3.5.3 A competitive technical solution

The VR Asia proposition at this level is technical skills in VR South Africa as well as operational funding.

3.6 Financial Commitment

VR Laser Asia via VR Laser RSA has committed R100 million in terms of a shareholder loan on an arms-length basis with interest (being at normal market rates).

Should the joint venture be unsuccessful within the first 5 years of incorporation of the company, VR Asia will not have recourse to Denel to repay the loan but shall bear this risk in totality.

3.7 Local Indian Industrial Partners

3.7.1 Adani's Profile

Mr Gautam Adani, the Chairman and Founder of the Adani Group, has more than 33 years of business experience. Under his leadership, Adani Group has emerged as a global integrated infrastructure player with interests across Resources, Logistics and Energy verticals.

Mr Adani's success story is extraordinary in many ways. His journey has been marked by his ambitious and entrepreneurial vision, coupled with great vigour and hard work. This has not only enabled the Group to achieve numerous milestones but also resulted in creation of a robust business model which is contributing towards building sound infrastructure in India.

3.7.2 The Reliance Group's Profile

Reliance Infrastructure, together with its wholly owned subsidiary Reliance Defence Systems Private Limited, acquired in March 2015, a controlling share from the promoters of Pipavav Defence.

Reliance Infrastructure Limited (RInfra) is amongst the largest Infrastructure Companies in India, developing Special Purpose Vehicles (SPVs) in several high growth sectors within the infrastructure space.

Pipavav Defence is India's first world class company integrated Defence production company. PIPAVAV was the first private sector company to get a license and contracts to build frontline warships for the Indian Navy.

Pipavav has strong partnerships with Global players such as:

- SAAB Technology AG, Sweden on technology transfer for the manufacturing of missiles, underwater systems and Aero-structures for fighter jets

- DCNS (France) Government owned company on Naval programs
- Rosoboron Export Russia on Naval programs
- Atlas Electronica on torpedoes and Sonars for the Indian Navy
- Sagem Defence Securite, part of the Sagem Group on long range air borne multi sensor multi spectral electro optical systems

Pipavav has been participating in several land system projects such as:

- Upgrade of several vehicle programs such as BMP2 and tank projects
- Manufacturing and supply of Armour Personnel Carriers
- Several UAV programs

In support of India's national objective of developing local privately owned defence companies, partnering with (either one or both) Adani and PIPAVAV will bring major advantages in terms of industry knowledge, manufacturing capability, setting up manufacturing partners, business knowledge and investment capital on major programs. Expanding into the Defence Business forms part of both companies growth vision and both have a history of success.

4. CONTRACTING MODEL

4.1 Joint Venture Governance

4.1.1 Hong Kong

In order to implement Denel's chosen risk mitigation strategy, Denel has elected that a new limited liability company be registered in Hong Kong (Denel Asia). This ensures that Denel does not inherit any legacy concerns and ensures a speedier due diligence process.

Notwithstanding the fact that Denel Asia will be incorporated in Hong Kong, Denel has to ensure that Denel Asia will be established and managed in line with its status as a state owned company, reflecting Denel's own corporate governance best practices and standards. In this regard, Denel has negotiated a favourable shareholders' agreement entrenching its rights and providing a contractual framework which will ensure Denel Asia's effective governance.

4.1.2 India

The key local industry partners in India that have been identified are the Adani Group ("Adani") and the Reliance Group ("Reliance"). The formation of, inter alia, Denel India as a joint venture company will be with Adani and a further joint venture company with the Reliance Group is contemplated as both companies will bring different opportunities to Denel Asia.

4.2 Contributions by the Parties

4.2.1 Hong Kong

Denel management have recognised that the intended shareholders of Denel Asia have differing strengths and capabilities. In this regard, it is envisaged (and the Denel Asia shareholders' agreement provides) that:

- Denel, will be the technology partner and will hold 51% of the issued share capital and control of Denel Asia. The remaining 49% minority is to be held by VR Asia who will be the networking and industrial partner.

- Other than standard minority protections, Denel as majority shareholder will be able to influence the strategic direction of Denel Asia at a shareholder level as shareholder matters require approval by a simple majority.
- Denel Asia will pursue opportunities in Asia, and, specifically in India using the network of VR Asia. Once an opportunity translates into a firm order:
  - Denel Asia may establish a subsidiary in India in order to satisfy Indian legal requirements;
  - Denel Asia will pursuant to a preferential supply agreement with Denel, procure product for delivery to an Indian end-consumer; and
  - If and to the extent required, VR RSA will contract, manufacture, and produce for Denel Asia for delivery to an Indian end-user.
  - The operating models are as follows:

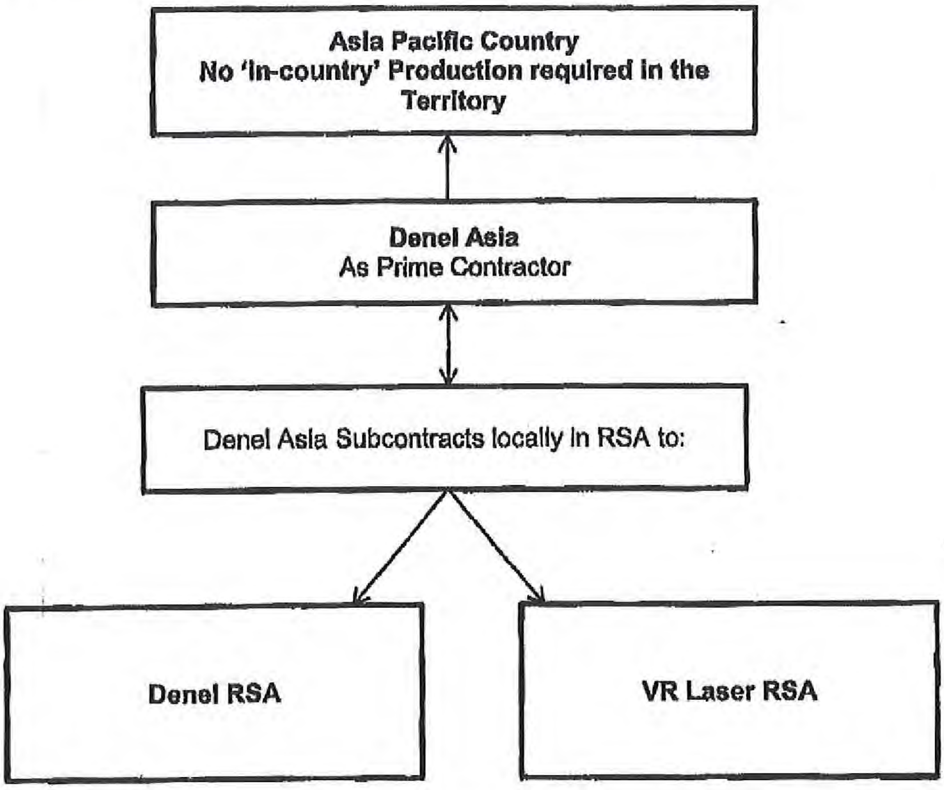
4.2.2 India

It is envisaged that:

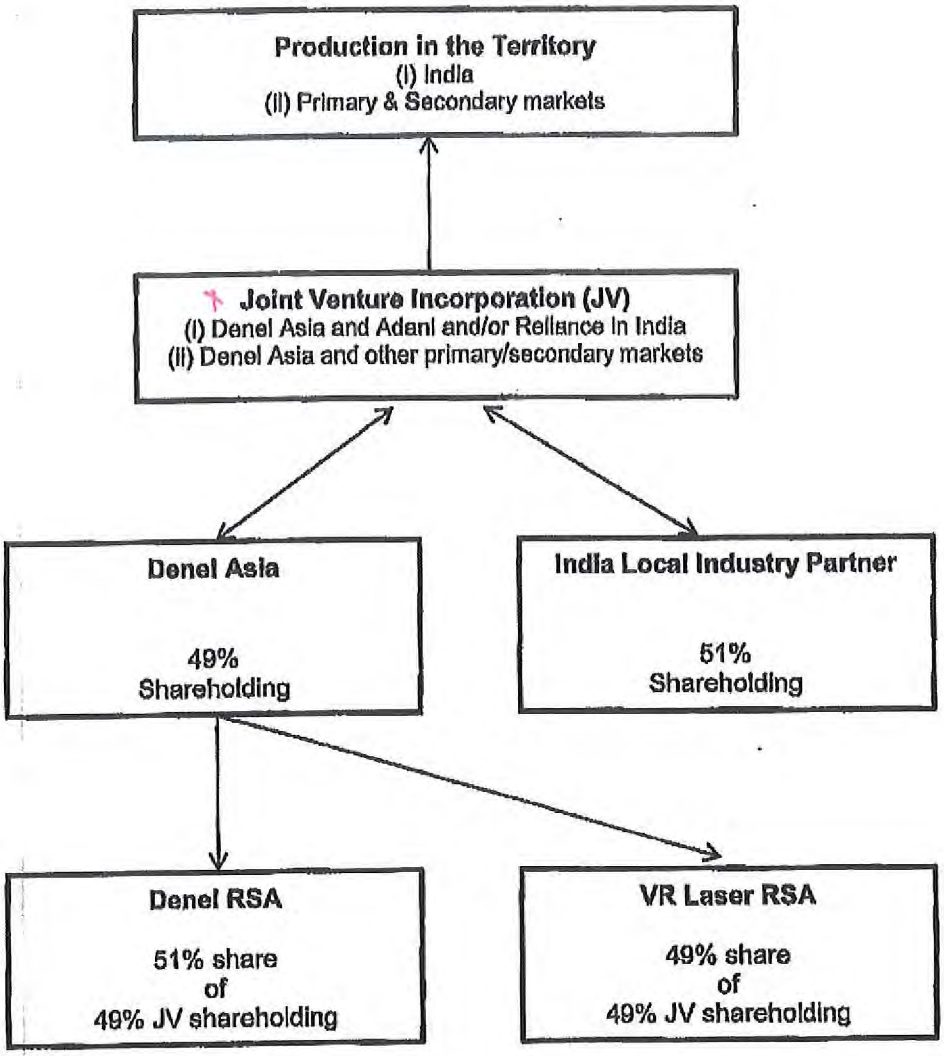
- Denel, will be the technology partner and will hold 49% of the issued share capital of Denel India in order to satisfy Indian legal requirements pertaining to foreign company shareholding.
- The 51% majority is to be held by Adani and/or Reliance Group who will be the local industrial partner.

It is not envisaged that any production will take place in Hong Kong as this office is essentially a marketing office.

4.3 Schematic representation of the contracting model in Hong Kong



4.4 Schematic representation of the contracting model in India



4.5 Financing

One of the key supporting drivers for the formation of Denel Asia, is Denel's limited finance obligations. VR Asia has undertaken to invest an amount of R100 million (One Hundred Million Rand) into Denel Asia for operational costs, payable in amounts of R20 million a year for a period of five years.

Thereafter, Denel Asia will, to the extent that external funding is required, source such funding from third party funders. The shareholders (Denel and VR Asia) will also be able to provide funding by way of shareholder loans pro-rated according to their respective shareholding but they are not obliged to provide funding. Denel does not have any definitive finance obligations or exposure to Denel Asia (save for ordinary supply arrangements).

5. INTELLECTUAL PROPERTY (IP) AND LICENCING

5.1 Technology transfer and protection of Denel's IP

5.1.1 Denel will not alienate its Intellectual Property and technology transfer will be done by way of an applicable licencing agreement between relevant parties.

5.1.2 Requisite approvals from Armscor and/or a third party will be obtained prior to licencing this IP.

5.1.3 To the extent that royalties are payable to Armscor and/or any third party, Denel Asia will be required to effect such payment.

5.1.4 Where Denel is the owner of the IP, there will be no royalty payable by Denel Asia as Denel is the technology partner bringing with it the technology to the joint venture subject to paragraph 5.1 (i) above. This is consistent with the Tawazun Dynamics joint venture model in the UAE which was approved by exchange control.

5.1.5 In instances where Denel cannot be subcontracted by Denel Asia for technology transfer to a local industry company in a specific jurisdiction, Denel Asia will instead be licenced with a right to extend such licence to an identified local industry company.

6. RISKS AND MITIGATION

Key risks were considered during the assessment of the business and relevant risks taken into account in the negotiation process and contractual framework. Appropriate financial and legal due diligence reviews were performed to identify and mitigate any further risks and the recommendations emanating therefrom have and/or will be implemented.

6.1 Transaction risks and its mitigation

6.1.1 Hong Kong

	Risks	Mitigation/Remarks
1.	Reputational	• Denel has undertaken a due diligence investigation and the recommendations thereof will be implemented. • No agents will be involved. • Denel has a controlling share and thus can control the direction of Denel Asia.
2.	Guarantees/ Finance Risk	• VR Asia is funding Denel Asia in the amount of R100 Million (R20 million a year for 5 years). Denel is to engage with VR Asia to secure a greater cash injection in the first 2 years. Denel previously unsuccessfully engaged with VR Asia on this issue. The Board has requested that a re-engagement with VR Asia on this issue is to take place. • Reduced balance sheet exposure due to partnering. • Denel has limited credit exposure to its subsidiary for normal supply arrangements on preferential terms.
3.	Penalties	• Both Denel and VR Asia, have the skill, expertise and experience to minimise the possibility of penalties being incurred.
4.	Legal Exposure	• Denel exposure is seen by the Denel board as limited.
5.	PFMA Conditions	• Denel will ensure that Denel Asia abides, to the extent applicable to the PFMA, the Denel Shareholder Compact and the Denel Risk and Compliance Frameworks. • Adherence to all shareholder conditions prior to Shareholders Agreement and ancillary agreements.

Risks		Mitigation/Remarks
8.	Exit Clause: Termination for convenience	• Initial discussions with VR Asia resulted in a rejection of a clause for termination for convenience. • Denel is to engage with VR Asia and address the Board's requirement that such a clause is to be included in the agreement.
9.	Due Diligence	• The key risk identified is the potential for bribery and corruption. This is alleviated in the shareholders agreement by the obligation to abide by anti-money laundering (AML) and anti-bribery and anti-corruption (ABC) policies. • Financial viability of VR Laser Asia raising the loan – in the absence of the loan being furnished by VR Asia to the joint venture, it will constitute a material breach and is a ground for termination. • Denel is satisfied that the loan can be legitimately be raised by VR Laser Asia via its shareholders.
10.	Double Taxation Agreement	• There are currently discussions between India and Hong Kong re a double tax agreement. • The risk of the lack of a double taxation agreement is outweighed by the lucrative opportunities that can be realised in India.

6.1.2 India

Risks		Mitigation/Remarks
1.	Reputational	• Denel Asia has undertaken a due diligence investigation and the recommendations thereof will be implemented • No agents will be involved
2.	Guarantees/ Finance Risk	• Reduced balance sheet exposure due to partnering • Denel has limited credit exposure to its subsidiary for normal supply arrangements on preferential terms
3.	Penalties	• Denel Asia has the skill, expertise and experience to minimise the possibility of penalties being incurred
4.	Legal Exposure	• Denel exposure is seen by the Board as limited.
5.	PFMA Conditions	• Denel India will abide, to the extent applicable, by the PFMA, the Denel Shareholder Compact and the Denel Risk and Compliance Frameworks. • Adherence to all shareholder conditions prior to Shareholders Agreement and ancillary agreements.

7. FINANCIALS

7.1 Capital Contribution

There will be a capital contribution of 1000 shares issued at USD 1 with Denel taking up 510 shares and VR Laser Asia taking up 490 shares.

The details re the capital contributions in respect of Denel India has not been confirmed however it is likely to be based on the same model as Denel Asia except that Denel Asia will only take up 490 shares whilst the Indian local industry partner will take up the majority shareholding of 510 shares at USD 1. This will be in accordance with the schematic model in paragraph 4.5 above.

7.2 Financial viability

The formation of Denel Asia in the region is opportune as it resolves many challenges that prevent Denel taking advantage of the current regional opportunities. It will also provide solutions to challenges that Denel faces at the moment i.e. to provide funding solutions.

Initially potential business amounting to USD 9,2 billion was identified. This has been tested and evaluated again and based on a realistic probability matrix on the latest marketing intelligence, the potential business is approximately USD 5.8 billion over the next 5 years which Denel could take advantage of.

7.3 Markets and Opportunities

Denel Asia's forecasted capabilities and market interests are promising.

The business opportunity at a reduced risk via partnering constitutes a logical next step by Denel for entry into a new market. See **Appendix F** which sets out markets and opportunities.

7.4 Forecast Income Statement

R'm	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Sales	0	587	900	1,543	3,087	4,372	6,013	7,026	7,500
Gross Profit	0	117	180	309	617	874	1,203	1,405	1,500
Gross Profit %	0	20	20	20	20	20	20	20	20
Operational Cost	11	14	19	22	27	35	35	35	35
Labour	6	8	12	16	20	25	25	25	25
Marketing	3	4	4	4	4	5	5	5	5
Overheads	2	2	3	3	3	5	5	5	6
Additional Operating Cost to Cover Business Growth	50	46	54	55	127	184	266	316	340
Profit before Interest / Tax / Dividends	(61)	57	107	232	463	655	902	1,054	1,125

Notes;

[1] The rate of exchange used was R12.50/USD.

[2] The normal yearly operational costs consist mainly of salaries for the office personnel and will increase as more resources are needed to do project management and marketing.
The marketing costs would mainly be for travel and accommodation and direct marketing in the different countries where the opportunities lies.
The operational overheads will be to rent space and equipped the office with the necessary resources to operate effectively. The IT costs will be typically be part of this.
This calculation is based on foreign offices cost structures that are managed by Denel over a very long term.

[3] The additional operating costs would mainly be used to do big system demonstrations to the potential clients. Any one big full in client country demonstrations could cost between R10m – R20m. This is based on various system demonstrations done in foreign countries.

7.5 Cash Flow Impact

The cash shortfall in the first year would have to be financed from either a 12 month short term loan at reasonable international rates negotiate with the partner. Subsequently, the business would be self-funding and sustainable over the medium to long term.

R'm	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Nett Operating Cash	(61)	57	107	232	463	655	902	1,054	1,125
Investment Capital	20	20	20	20	20				
Nett	(41)	77	127	252	483	655	902	1,054	1,125

8. RSA BENEFITS

8.1 Local Manufacturing Development

By concluding a contract manufacturing agreement with VR RSA (an established provider to Denel), Denel Asia ensures the sustainability of local manufacturing expertise.

8.2 Skills Development

Due to the technological partnering between Denel, Denel Asia and VR RSA, Denel serves its obligation and desire of fostering the development of core skills and technology competencies with black owned and/or black controlled South African entities. A proposition that satisfies a number of key Denel policies.

8.3 Job Creation

By facilitating a black owned and/or controlled South African company (VR RSA), Denel Asia seeks to maintain South African jobs in the skilled and semi-skilled industry sectors. In addition, based on the projected income, significant work will result from Denel Asia contracting with both Denel and VR RSA.

9. CONCLUSION

Asia is one of the fastest growing defence markets. Of the top ten worldwide defence importers in 2014, four were from Asia (India, China, Indonesia and Vietnam) with Singapore and Pakistan making 11 and 12 slots respectively. (Stockholm International Peace Research).

The formation of Denel Asia in the region is opportune as it resolves many challenges that prevent Denel taking advantage of the current regional opportunities. It will also provide solutions to challenges that Denel faces at the moment i.e. provide funding solutions.

10. REQUEST

10.1 That Exchange Control approve the establishment of Denel Asia as joint venture company in Hong Kong which company will facilitate the legitimate securing of contracts in the Asia-Pacific region; and

10.2 To make a capital investment of USD510 as start-up capital for the to-be established company in Hong Kong.

10.3 That Exchange Control approve the establishment of Denel India as a joint venture company in India which company will facilitate the legitimate securing of contracts in India via a local industry partner; and

10.4 To make a capital investment of USD25 as start-up capital for the to-be established company in Hong Kong.

Yours faithfully

Marius Potgieter
GROUP TREASURER