

HEALTH AND BEAUTY - continued

ORLEANS COSMETICS (PTY) LTD (ORLEANS COSMETICS)

KEY FACTS

CHIEF EXECUTIVE OFFICER	Donald Kourie
BOARD OF DIRECTORS	K Abdulla (chairman), AM Salie, CF Hendricks and AB Amod and DN Kourie
EMPLOYEES	78
HEAD OFFICE	Westlake Business Park, Cape Town
WORK PRESENCE	South Africa, Southern Africa (including Namibia, Zimbabwe, Lesotho, Eswatini [previously Swaziland] and Botswana) and Mauritius

PROFILE

Orleans Cosmetics (Pty) Ltd (Orleans Cosmetics) was acquired in May 2017 and became a subsidiary of AEEI. It was a business previously known as Orleans Distributors CC and RVB Cosmetics CC, which had been in business in South Africa for the past 23 years.

Orleans Cosmetics imports and distributes four cosmetic brands from Europe on an exclusive basis in South Africa and neighbouring territories, through retailers and beauty salons.

Orleans Cosmetics is the exclusive Southern Africa distributor of the following imported cosmetic brands, each one with a long international history:

- Gatineau - founded in France in 1932
- NUXE - founded in France in 1990
- RVB Skinlab/Diego Dalla Palma Professional - founded in Italy in 1961
- Sothys - founded in France in 1946

Gatineau and NUXE are sold in retailing groups such as Truworths, Woolworths and Edgars, while Gatineau is sold in Dis-Chem. Both brands are also sold in beauty salons.

RVB Skinlab/Diego Dalla Palma Professional and Sothys are exclusively found in beauty salons and spas across South Africa.

The Company's present focus is on skincare with an emphasis on anti-ageing. The business has a make-up range in RVB/Diego Dalla Palma.

2019 OPERATIONAL PERFORMANCE

The Company is expected to make a pretax and pre-interest profit of R3.2m for the year ending 31 August 2019.

VISION 2020 VISION - ORLEANS COSMETICS CONTRIBUTION

Orleans Cosmetics vision is to be a leading player in the prestige and masstige cosmetics industry in both the retail industry and in beauty salons. It intends to acquire another skincare range and fragrance lines to complement its current skincare ranges.

PROSPECTS AND FUTURE OUTLOOK

The chief executive officer of Orleans Cosmetics has a vast amount of experience in this industry having worked with major brands for many years. As a result, he understands the industry very well and is well placed to drive the future growth of the business.

The key drivers in the business are the following:

- Superb customer service at point of sale through their dedicated, highly-trained beauty consultants and their extremely well-qualified beauty therapists
- Training of store consultants and beauty therapists
- Close strategic relationships with key retailers
- Excellent management at head office and in the field, by the area managers
- Public relations

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OUTLOOK FOR 2020

- Focus on strengthening the brands' presence in the marketplace
- Introduce a skincare brand, Resultime, from the NUXE group
- Explore the opportunity of obtaining exclusive agencies in fragrance

They intend to double the size of the business within the next four to five years. Growth will occur through a balance of organic growth and acquisitions.

The business was previously owned and managed by the Neilson family for 21 years. The intention is to retain the entrepreneurial spirit which already exists, and to blend this with the business expertise which AEEI can provide. The Company has built a solid reputation as being professional, well managed and responsive to the needs of its end customers and to retailers and beauty salons.

As a subsidiary of AEEI, Orleans Cosmetics is very well positioned to be the partner of choice for both local companies and to represent overseas brands due to AEEI's B-BBEE credentials.

Industry statistics indicate that the luxury and masstige segments of the cosmetics market, are considered to be in excess of R9bn per annum at retail prices, indicating that there is enormous potential growth for Orleans Cosmetics.

OPERATIONAL FOOTPRINT

Orleans Cosmetics has the exclusive distribution rights for the four overseas-based principals for South Africa and Namibia, and in certain cases it also has the rights to Mauritius, Zimbabwe, Eswatini (previously Swaziland), Botswana and Lesotho.

COMPANY BRAND



BRANDS

Orleans Cosmetics is the exclusive South Africa and Southern Africa distributor of Gatineau, NUXE, RVB Skinlab/Diego Dalla Palma Professional and Sothys brands.



BUSINESS MODEL

Orleans Cosmetics has a healthy balance of business spread between major retailers such as Truworths, Woolworths, Edgars and Dis-Chem as well as a large number of beauty salons. It is about to enter the Foschini group with NUXE and the first fragrance to be launched: Collection Grands Crus.

The retailers need a certain profit margin to make it viable to retail their products, which are mainly sold by employees employed by Orleans Cosmetics and whose costs are partially reimbursed by the retailers.

The beauty salons use their products as a professional salon treatment. In addition, they retail products to their clients, with service provided by the beauty salon owners as well as their own employees.

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GOVERNANCE

Orleans Cosmetics adopted the application of policies and structures as defined by the AEEI Group and complies with all sound governance structures and regulatory functions and has had no reported fraud or deviation in the application of these principles in the current period. The continued training and exposure of employees to the regulatory environment and regulations of the Companies Act ensure that employees are fully informed of their responsibilities.

The Board of Orleans Cosmetics meets on a quarterly basis to review the action plan of the executives and

the progress of the Company towards its set objectives. Additionally, a risk register is maintained and reviewed by the Board of directors. Regular peer reviews are carried out by the holding company in respect of the delegated authority level as well as adherence to the AEEI Group policies. The Board of Orleans Cosmetics has the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. The Board promotes independent judgement to assist with the balance of power and the effective discharge of its duties.

The Board of Orleans Cosmetics continues to work towards achieving the following governance outcomes:

OBJECTIVE	Stakeholders	<ul style="list-style-type: none"> Value creation for all stakeholders and sustainable development An ethical culture and effective leadership are maintained with positive outcomes A stakeholder-inclusive approach to balance the needs and interests of material stakeholders in the best interests of the Company
SCOPE	Company	<ul style="list-style-type: none"> The Company operates within triple context Governs risks and opportunities, strategy, business model as well as sustainable development in a way that supports the Company in achieving its strategic objectives
CHARACTER	Internal system	<ul style="list-style-type: none"> Proper internal controls are in place to approve policies and planning and to monitor and ensure accountability Assurance services and functions enable an effective control environment to support the integrity of information for internal and external decision-making The Company remunerates fairly, responsibly and transparently in order to promote the achievement of its strategic objectives and positive outcomes in the short, medium and long-term
MECHANISM	Conformance	<ul style="list-style-type: none"> Compliance with applicable laws and adoption of non-binding rules, codes and standards in a way that supports the Company to be ethical and a good corporate citizen
DIRECTION	Management	<ul style="list-style-type: none"> The Board sets and steers the strategic direction of the Company and is the focal point and custodian of corporate governance and ensures accountability for the Company's performance. The Board oversees and monitors the implementation and execution by management
DISCLOSURE	Financial statements	<ul style="list-style-type: none"> Audited financial statements

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STRATEGIC PLANNING AND MONITORING

Orleans Cosmetics manages its business strategically following a process which includes an annual review of past performance, product ranges and markets, together with a review of the internal and external environments. This review is then followed by the development of strategies, targets and action plans, aimed at both growth and sustainability in the short to long term.

A formal delegated authority schedule is in place which informs executive management of the necessary levels of approval for all key business transactions.

ECONOMIC SUSTAINABILITY

Orleans Cosmetics aims to deliver sustainable returns to all its stakeholders. They are in the process of refining a number of targets to measure their performance. They will continue to monitor their progress against these targets and, when necessary, revise them to consider changes in the business environment.

ENVIRONMENTAL SUSTAINABILITY

Orleans Cosmetics imports its products from companies in Europe over which it has no control in terms of unnecessary packaging. However, each supplier is very mindful of the environment and reducing superfluous packaging, wherever possible.

SOCIAL SUSTAINABILITY

Orleans Cosmetics subscribes to a sustainable approach in conducting its business. The Company is aware of the critical role that business should play in the upliftment and development of the previously disadvantaged majority.

The Company creates a working environment that develops and empowers its employees and also recognises the contributions of each team player in the pursuit of excellent performance.

KEY CHALLENGES, RISKS, TECHNOLOGY AND COMPLIANCE

KEY CHALLENGES

At present, Orleans Cosmetics' strategic focus is aimed at overcoming the following potential key challenges:

REGULATION AND LEGISLATION	<ul style="list-style-type: none"> There is no regulatory requirement in South Africa to import and to sell cosmetics. The industry is self-regulated in terms of business practices and advertising. Only if outrageous claims are made regarding improvement to a customer's skin, would they run the risk of the Medicines Control Council claiming that the advertising claim amounts to being a medicine.
COMPETITION FROM OTHER COMPANIES	<ul style="list-style-type: none"> The Company imports its products and faces competition from both local and international companies with critical mass and funding. This also influences the market prices which can be obtained for the Company's products. The business is a price taker, not a price-maker.
EMPLOYEE SKILLS AND RETENTION	<ul style="list-style-type: none"> The industry in which the Company operates requires skilled and experienced employees, thus employee retention is a key challenge. Limited resources of high-quality personnel make employee mobility one of the highest risk factors.
TECHNOLOGY	<ul style="list-style-type: none"> The company has its own website: www.orleanscosmetics.co.za.

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RISKS

Risk management is integrated into the Company's management process. The Company maintains a risk register, which is compiled and maintained by the executive management, with the risk status and execution of planned actions being reviewed monthly. Executive management is responsible for the identifying, classifying and managing operational risks.

Significant strategic and going concern risks are identified at all levels in the Company. However, the responsibility for directing the actions necessary to manage these risks is the responsibility of the Board of directors.

Strategic and going concern risks are reviewed at the quarterly Board meetings and the executive directors are charged with the execution of approved risk management actions.

Along with the risk register, executive management also compiles and maintains a strategy dashboard, as several risks are being mitigated by the Company's strategy; the risks and strategy are directly mapped where applicable.

In the period under review, although a number of identified risks could not be avoided, the pre-planned management strategies for these risks were successful in mitigating or avoiding the severity of the impact on the Company's overall performance.

RISK IDENTIFICATION	IMPACT ON BUSINESS	RESPONSE
The risk that exchange rates may weaken drastically	This would directly affect the profitability of the business	A policy of taking forward cover has been implemented to cover up to 75% of the risk for the following three months
The risk that an overseas supplier may withhold the extension of the supply agreement for an additional three-year period	A direct, marginal profit impact on the business would be the result	It is imperative to maintain a close working relationship with the four overseas principals and to invest in each brand to avoid such a situation
The risk that a major customer may no longer wish to stock the Company's products	This would have a direct impact on the profitability of the Company through reduced sales	A close customer relationship is important to avoid this situation. An alternative distribution channel must always be under consideration to replace the potential loss of business
Technology – the risk of online retailing replacing purchasing in the store environment is low in South Africa; the Company does less than 2% of its sales online and this percentage is not expected to grow to more than 5% in the next few years, unlike in the UK where up to 15% of retailing is done online	As sales move online, the impact can be both positive and negative in terms of profitability	Measure the level of online sales on a regular basis to ensure that employee levels in the stores are modified accordingly

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STAKEHOLDER MANAGEMENT

CREATING STAKEHOLDER VALUE

Orleans Cosmetics recognises the importance of creating value for its stakeholders in the short, medium and long-term. The principal stakeholders for Orleans Cosmetics are its shareholders, employees, customers, suppliers, communities and government.

Orleans Cosmetics creates value for its stakeholders in the short, medium and long-term through the following:

CAPITAL	STAKEHOLDER	VALUE FOR THE ORGANISATION	VALUE FOR STAKEHOLDERS
Social	Customers	<ul style="list-style-type: none"> Repeat business Revenue growth 	<ul style="list-style-type: none"> Quality products and services Fair pricing Correct labelling
Human	Employees	<ul style="list-style-type: none"> Engaged, motivated employees Ability to attract and retain key skills 	<ul style="list-style-type: none"> Fair pay Interesting work Growth and development Equal treatment
Social	Communities	<ul style="list-style-type: none"> Reputation Brand value Trusted products 	<ul style="list-style-type: none"> Employment opportunities
Social	Government	<ul style="list-style-type: none"> Little interference 	<ul style="list-style-type: none"> Contribution to taxes Support job creation and strategic initiatives
Social	Suppliers	<ul style="list-style-type: none"> Good service Commitment 	<ul style="list-style-type: none"> Fair allocation of business Pay on time Zero corruption
Financial	Owners	<ul style="list-style-type: none"> Supply of capital at reasonable price 	<ul style="list-style-type: none"> Growth Return on investment Reduced risk
Intellectual	Customers	<ul style="list-style-type: none"> Understanding of trends and opportunities Improved ability to compete 	<ul style="list-style-type: none"> Better products and services

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STAKEHOLDER EXPECTATIONS

STAKEHOLDER	RELATIONSHIP	EXPECTATION	EXPECTATION MANAGED
Shareholders	Owners of the business	<ul style="list-style-type: none"> Integrity Shareholder wealth creation Ethical business practices 	<ul style="list-style-type: none"> Sound corporate governance rules are implemented in the business
Customers - Retailers and beauty salons	Consumers of Orleans Cosmetics products	<ul style="list-style-type: none"> Quality products that meet recognised industry standards Reliable long-term supply of products Products which deliver on performance expected 	<ul style="list-style-type: none"> Ensure inventory availability Direct contact with major customers on a regular basis Strategic meetings with key retailers twice per annum at a minimum The Company's highly trained consultants provide excellent customer service in the retail stores as well as the therapists in the beauty salons, who are also highly qualified
Suppliers	Procurement of goods for resale	<ul style="list-style-type: none"> Ethical business relationships Prompt payment 	<ul style="list-style-type: none"> Negotiate, manage and conclude contracts Timeous payment Ensure that South African-based suppliers support the policy on B-BBEE
Employees	Members of staff	<ul style="list-style-type: none"> Fairly remunerated and treated with respect 	<ul style="list-style-type: none"> Annual performance and remuneration review Feedback given throughout the year

REMUNERATION

Orleans Cosmetics aims to be a competitive and attractive employer in the marketplace. Remuneration and benefits are important drivers as are career opportunities, personal development, culture and values, leadership, company performance and reputation. As stated in the Code of Conduct, Orleans Cosmetics complies with applicable laws, agreements and industry standards on working hours and compensation.

Orleans Cosmetics has various incentive schemes in place to retain talented and experienced employees. Their policy requires that all full-time head office employees and area managers belong to their provident fund to plan for their retirement. Medical insurance is in place for head office employees and area managers unless they opt for government medical cover.

(📄 - Principles 1 to 16)