

## JCI Limited (“the Company” or “JCI”)

### UPDATE TO SHAREHOLDERS ON THE PUBLISHING OF ANNUAL FINANCIAL STATEMENTS

11 June 2019

1. The Board of Directors of JCI (“**the Board**”) wishes to update shareholders regarding the latest position concerning the publication of the annual financial statements of JCI pursuant to the Compliance Notice issued by the Companies and Intellectual Property Commission (“**the Commission**”) on 4 September 2018 and the Agreement of Settlement concluded between JCI and the Commission on 17 December 2018 (“**Settlement Agreement**”).
2. The import of the Settlement Agreement was that JCI was required to produce audited financial statements that are compliant with the International Financial Reporting Standards of the International Accounting Standard Board (“**IFRS**”) for the financial years 2013 to 2018 according to an agreed timeline.
3. JCI was under the (mistaken) impression that the Settlement Agreement had been made an order of court in early 2019. It was only on 31 May 2019 that JCI’s attorneys discovered that this application by the Commission (to have the Settlement Agreement made an order of court) was only enrolled for hearing on Thursday, 6 June 2019 (“**the application**”).
4. Accordingly, on 31 May 2019 JCI caused a notice of intention to oppose the application to be delivered. At the hearing on 6 June 2019, the court granted a postponement of the application to afford JCI an opportunity to deliver an opposing affidavit and to institute a counter-application for an order *inter alia* -
  - 4.1 condoning JCI’s failure to comply with the time limit imposed in section 172(1)(a) of the Companies Act No 71 of 2008 (“**Companies Act**”) to have the Compliance Notice reviewed and set aside;
  - 4.2 reviewing and setting aside the Compliance Notice in terms of section 172(1) of the Companies Act;
  - 4.3 declaring that it is impossible for JCI to perform in terms of the Settlement Agreement, and setting it aside.
5. The basis of the opposition to the application and JCI’s counter-application, are set out hereunder.

6. Since the conclusion of the Settlement Agreement JCI has made every effort to comply with its terms and to meet the obligations in accordance with the timelines set out in the Settlement Agreement.
7. Pursuant to the Settlement Agreement, the Board immediately went about the task of endeavouring to produce IFRS compliant financial statements.
8. JCI held meetings with its auditors, who had been JCI's auditors since September 2005 ("**the auditors**") to talk over the preparation and audit requirements and processes for IFRS compliant accounts. The auditors had previously audited the group financial statements of JCI in respect of the financial years 2011 to 2016 ("**the specified financial statements**"), as Specific Basis of Preparation Accounts. The specified financial statements clearly stated that IFRS was not followed. The 2013 to 2016 JCI group financial statements were presented at the AGM of JCI held on 9 June 2017. All the resolutions which were before the meeting were passed by shareholders holding 98.27% of the issued shares, who were present or represented at the meeting.
9. JCI assembled a financial team, comprising its internal accountants and external consultants to assist in the preparation of draft IFRS compliant JCI Group and JCI individual financial statements for the financial years 2013 to 2018 .
10. JCI's internal team and the external consultants worked tirelessly over many months to produce draft JCI Group and JCI individual financial statements that they believed would be compliant with the terms of the Settlement Agreement. JCI twice reported to the Commission (on 28 January 2019 and 26 April 2019) that it was confident that IFRS audited financial statements for the 2013 to 2016 financial periods would be delivered by 31 May 2019.
11. On 25 March 2019 a draft set of the 2013 accounts was provided to the auditors for comment. All twelve sets of accounts (Group and individual JCI accounts for 2013 to 2018) were completed and were ready for audit by 3 May 2019. JCI was confident that this afforded the auditors sufficient time to meet the first deadline of 31 May 2019 for the delivery of IFRS compliant audited financial statements for 2013 to 2016.
12. The auditors were included in various discussions and meetings over many months and were advised on JCI's progress with the accounts, as well as various technical issues that had been encountered.

13. On Thursday, 25 April 2019, the audit partner advised JCI that the auditors were not able to proceed with the audit. JCI immediately requested a meeting which took place on 2 May 2019 with the JCI accounting team and the audit partner.
14. Pursuant to the meeting with the auditors on 2 May 2019, the auditors addressed a letter dated 9 May 2019 to JCI, in which they made the following observations –
  - 14.1 pursuant to the Compliance Notice and the court order (JCI as mentioned above was until 31 May 2019 under the impression that the Settlement Agreement had already been made an order of court), JCI was required to submit audited financial statements to the Commission in respect of the 2013 to 2018 financial years, which complies with the requirements of IFRS;
  - 14.2 JCI was previously unable to compile IFRS compliant financial statements due to various reasons which were disclosed in the specific purpose financial statements that were compiled and audited in terms of an entity specific framework;
  - 14.3 JCI had appointed consultants after the Settlement Agreement to compile IFRS compliant financial statements, various drafts of which had been submitted and discussed with the auditors;
  - 14.4 it became clear to the auditors from these discussions and reviews of the draft financial statements that JCI is still not in a position to compile fully compliant IFRS financial statements for the reasons that –
    - 14.4.1 JCI was still unable to consolidate all its subsidiaries as required by IFRS due to a lack of financial records despite the fact that no material assets or liabilities were discovered through extensive investigations and forensic audits, which, has a pervasive effect on the financial statements ; and
    - 14.4.2 since the opening balances for the years to 31 March 2007 were disclaimed, the opening balances as at 1 January 2013, the initial IFRS adoption date in accordance with the Compliance Notice and the requirements of IFRS, cannot be verified to the satisfaction of the auditors.
  - 14.5 International Standard on Auditing 210, *agreeing the terms of audit*

*engagements ("ISA 210") sets out the pre-conditions for an audit engagement before an auditor can accept an audit engagement. Paragraph 7 (the reference to paragraph 6 is a typographical error) of ISA 210 specifically states that the auditor shall: "Determine whether the financial reporting framework to be adopted in the preparation of the financial statements is acceptable";*

- 14.6 as JCI is still unable to fully comply with IFRS which is required in terms of the Compliance Notice (and Settlement Agreement) the pre-conditions for accepting an audit engagement are not met and the auditors are unable to accept an audit engagement on that basis.
15. As shareholders are aware, the current Board inherited a company fraught with legal, tax and other problems created during the reign of Brett Kebble ("**Kebble**"), its Chief Executive Officer, who was murdered, in an assisted suicide, in 2006. Kebble had been involved in fraudulent and corrupt activities utilising JCI as the conduit and his personal fiefdom. The Group's annual financial statements for the years ended 31 March 2005, 31 March 2006 and 31 March 2007 contained a disclaimer of responsibility from the directors of the JCI Group that they were unable to substantiate the completeness, accuracy and correctness of the information in those financial statements ("**the disclaimed AFS**"). Accordingly, the Group's auditors declined to give an audit opinion on those financial statements. Subsequent group annual financial statements included information whose origin dated from or before the disclaimed AFS, or which had been computed in or based on computations made in the disclaimed AFS.
16. The consequences of the Kebble era have been felt in all subsequent financial years. The current Board believes that, notwithstanding these challenges, it has done everything in its power to produce draft financial statements that were ready to be audited by the auditors on an IFRS basis.
17. In view of the concerns and views expressed by the auditors in their letter dated 9 May 2019, and particularly because the auditors were not prepared to accept the audit engagement on the IFRS basis, the Board consulted urgently with Professor Harvey Wainer - a recognised auditing and accounting expert in South Africa - to elicit his views. This meeting was held on 21 May 2019.
18. An urgent meeting was then held on 23 May 2019 with the representatives of the auditors, Professor Wainer and JCI's attorneys.

19. Notwithstanding all the time, effort and cost expended over many months on the part of JCI, in collaboration with the external consultants, and with the assistance provided by the auditors, JCI has been advised that the auditors cannot accept the engagement to audit the financial statements on the IFRS basis for the reasons mentioned above.
20. As soon as JCI became aware that it would not be possible to comply with the Settlement Agreement, JCI's attorneys engaged with the Commission, advising them of that fact, and thereafter gave notice opposing the application. As mentioned above, at the hearing on 6 June 2019, JCI was granted a postponement of the application to enable JCI to file an opposing affidavit and bring a counter-application for the relief referred to in paragraph 4 above.
21. The Board will keep shareholders advised of further developments in respect of JCI's opposition to the application and its counter-application.