

The Editor - The Star

Per e-mail: sifiso.mahlangu@inl.co.za

3 December 2021

Dear Mr Mahlangu,

RE: DEMAND TO ISSUE CORRECTION

- 1 On Sunday, 28 November 2021, you addressed an email to our chairman requesting comments and answers to a series of allegations advanced against EOH Group CEO, Mr Van Coller, and EOH generally.
- 2 The nature of the matters put to our chairman were fact-intensive, and which required careful consideration to ensure that the responses sought would be factually accurate, objective and in line with the transparency that EOH has adopted under the leadership of Mr Van Coller.
- 3 Given that your request for comment was received on a Sunday morning, our representatives requested an extension of time to provide you with a full and accurate response. Our request was coupled with an invitation to meet with us to provide you with a complete and contextually factual response.
- 4 Whilst you agreed to a one day extension to reply, it is extremely disappointing and surprising that our invitation to meet was not taken up, but worse, that we haven't received the courtesy of a response to the numerous emails and Whatsapp messages sent to you between Sunday morning and Monday evening, prior to publishing the articles referred to below. This suggests an overwhelming bias in the manner in which you intended to publish your foreshadowed article, and requesting our comment so as to ensure responsible reporting was merely a formality, and you did not intend to meaningfully engage EOH on the issues.
- 5 The events described above culminated in an article being published by The Star on its front page on 1 December 2021 entitled "***EOH exposed: Sars owed R39m***" and the subsequent online (IOL) publication similarly published on 1 December 2021 entitled "***Exclusive: Investigation reveals how EOH inflated its balance sheet, racking up a R39m Sars debt***" (the articles).
- 6 Both articles are replete with factual inaccuracies, which could have been avoided had you taken up the invitation to meet with us.

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- 7 Without detracting from what is set out above, now that we have had sight of the articles that were foreshadowed (and ultimately published) by you, we have prepared an analysis illustrating just some of the factual inaccuracies and missing context in the articles.
- 8 We demand that you issue corrections to both the print and online versions of the articles by no later than **6 December 2021**.

Yours faithfully,

Fatima Newman
Chief Risk Officer: EOH Group

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ANNEXURE A: RESPONSES TO FACTUAL INACCURACIES CITED IN THE ARTICLES

Article	Factual Response
EOH exposed: Sars owed R39m	<ul style="list-style-type: none"> EOH Holdings Limited (“EOH”) is not indebted to SARS in relation to Mehleketo Resourcing (Pty) Ltd (“Mehleketo”). SARS does have proven claim against Mehleketo’s insolvent estate to the value of R19 997 456,41, which was addressed pursuant to the liquidation process.
Transactions were engineered to inflate balance sheet	<ul style="list-style-type: none"> No transactions were engineered and the balance sheets of EOH and Mehleketo were not inflated. As a 100% subsidiary of the EOH group, the legitimate intercompany accounting transactions between 100% owned subsidiaries eliminate on consolidation and thus have no impact on the group balance sheet of EOH. The transactions, merely had the effect of consolidating these liabilities into its holding company, Mehleketo remained indebted to a single EOH subsidiary, Nextec Industrial Technology (Pty) Ltd (“Nextec”). Previously, inter-group loans were granted haphazardly across all 270 subsidiaries and not in a controlled way through a treasury company, or holding company, which would be standard and best practice in most large organisations. At this time, EOH management started a process of cleaning up the underlying balance sheets of subsidiary companies. Historically, EOH did not have a treasury function and had lent money across the 270 wholly-owned subsidiary companies depending on which subsidiary had cash at the time. This meant that there was a complex set of loans between all the EOH subsidiaries which made the EOH group impossible to manage. As part of the balance sheet clean-up, a process started whereby the inter-company loans were consolidated and transferred to a holding company. Mehleketo, a wholly owned subsidiary of EOH prior to liquidation, was identified as one of the first companies to be addressed as part of this process in early 2019. However, as Mehleketo was in a sale process as it was a non-core asset for an ICT company such as EOH, the actual transactions to settle the numerous inter-company loans owing to and from Mehleketo were delayed until the sale process was expected to be concluded in order to ensure that the consolidation only had to incur once based upon final balances. Unfortunately, the sale fell through and there was no option but to liquidate the company as Mehleketo was not able to settle its debts as and when due. The effect of these debts being settled is that the net asset value in the EOH balance sheet remained unchanged, as did the net asset value of Mehleketo.

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<p><i>The Star</i> newspaper investigation has uncovered a trail of unsavoury financial dealings at corporate giant EOH.</p>	<ul style="list-style-type: none"> • We deny that the transactions were unsavoury, as the transactions complied with established accounting practices.
<p><i>The Star</i> can exclusively reveal that EOH entered into a series of clandestine transactions with one of its subsidiaries, Mehleketo Resourcing (Pty) Ltd.</p>	<ul style="list-style-type: none"> • We deny that the transactions were clandestine, as the transactions were not hidden and complied with established accounting practices. • All accounting records of Mehleketo were made available to the liquidators and it is illogical to think that such transactional flows could have remained hidden during a liquidation process.
<p>These transactions took place at a time when Mehleketo was on the brink of liquidations.</p>	<ul style="list-style-type: none"> • These transactions were part of a process which was initiated months before the provisional liquidation order was granted and was in any event transacted in the ordinary course of business. EOH has continued the consolidation process across the group since 2019.
<p>The investigation reveals that the transactions were deliberately engineered to inflate the balance sheet of EOH at the expense of the creditors of Mehleketo and possibly the SA Revenue Service (SARS).</p>	<ul style="list-style-type: none"> • We deny that the transactions were deliberately engineered to inflate the balance sheet and at the expense of the creditors of Mehleketo. The net asset value remained exactly the same within Mehleketo and EOH before and after the transactions. • It is worth noting that EOH still has a claim against Mehleketo's insolvent estate to the value of approximately R49,6 million, which it has not claimed at this stage in order to benefit other creditors (other than EOH entities).
<p>Mehleketo was 100% owned by EOH and conducted business in the rail signalling industry. Mehleketo has been struggling to stay in business and EOH has funded Mehleketo in the order of almost R150 million.</p>	<ul style="list-style-type: none"> • We acknowledge that Mehleketo was 100% owned by Nextec, a 100% owned EOH subsidiary and that it conducted business in the rail signalling industry. It is worth noting that the previous management of EOH and business decided to invest in the rail signalling industry when acquiring Mehleketo even though EOH had no prior experience in the industry. • We acknowledge that Mehleketo had been struggling financially. That is the reason why Mehleketo was part of an EOH support programme in order to see if a disposal of the business was possible. As stated above, the sale disposal failed and therefore Mehleketo was liquidated as it was in financial distress and the directors of Mehleketo could have been accused of reckless trading had such decision not been taken. • We acknowledge that EOH funded Mehleketo as a shareholder. EOH paid staff salaries and wages for two months after liquidation as part of its commitment to social responsibility. • We have no knowledge of the calculation of the R150 million.
<p>EOH is a JSE-listed company and is required to disclose both the performance of its subsidiary companies as well as any funding</p>	<ul style="list-style-type: none"> • EOH has at all times complied with its disclosure obligations.

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provided by EOH to its subsidiaries and the prospects of recovery of shareholder money used to fund these companies.	
During 2019, EOH identified certain businesses in the group that were no longer viable. One such business was Mehleketo.	<ul style="list-style-type: none"> • This statement is correct.
EOH planned to bring an application to court to wind up Mehleketo.	<ul style="list-style-type: none"> • This statement is correct.
The scheme to bring about the winding up was for another EOH subsidiary, Impact HR Resourcing (Pty) Ltd to apply to the high court to liquidate Mehleketo on the grounds of unpaid debt. The plan was to keep the liquidations process inhouse with EOH pulling the strings to ensure that its own rights were taken care of before the rights of creditors of Mehleketo.	<ul style="list-style-type: none"> • Mehleketo was unable to pay its debts as they fell due as contemplated in section 344(f) read with section 345(1)(c) of the 1970 Companies Act and as read with item 9 of Schedule 9 of the 2008 Companies Act. • Various of Mehleketo's creditors threatened to apply for its liquidation by sending it section 345 notices whilst a creditor, LAAT Trading (Pty) Ltd ("LAAT") also applied for Mehleketo's liquidation. • Impact HR Resourcing (Pty) Ltd was a bona fide creditor and brought the application to liquidate Mehleketo on the basis that Mehleketo was unable to pay its debts as they fell due • Prior notice of the liquidation application by law had to be and was given by serving the application on SARS, known trade unions and employees. • Prior notice of the application was also given to LAAT. • None of the parties to whom prior notice was given, including SARS, opposed the application. • The application took place in open court and Mehleketo was placed under provisional winding up on 21 November 2019, which was subsequently made final by an independent court of law. • The winding-up process is managed by a liquidator who is independently appointed by the Master of the High Court. • EOH holds no oversight or authority over the liquidators and their decisions, who by law must act in the interest of the general body of creditors.
On November 13, 2019, Mehleketo had the sum of R3,287,752.87 in its bank account. The Star has seen documents as proof that EOH had paid Mehleketo the sum of R68,173,012.50 in two amounts of R16,861,269.50 and R51,311,742 respectively.	<ul style="list-style-type: none"> • The transactions in question were affected on 14 November 2019. • These transactions formed part of the inter-company consolidation strategy referred to above. • There was no change to Mehleketo's net asset value after the transactions.
Mehleketo in turn repaid EOH the sum of R68,173,012.50 in five amounts of R10m, R8m, R5,527,000, R3,113,671.50 and R1,532,007 respectively on November 14, 2019.	<ul style="list-style-type: none"> • The transactions in question were affected on 15 November 2019. • These transactions formed part of the inter-company consolidation strategy referred to above. • There was no change to Mehleketo's net asset value after the transactions.

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<p>EOH round-tripped the sum of R68,173,012.50 between itself and Mehleketo over a two-day period.</p>	<ul style="list-style-type: none"> • These transactions formed part of the inter-company consolidation strategy referred to above.
<p>EOH instructed impact HR Resourcing to brief EOH's attorneys, ENSAfrica, to attend to the liquidation of Mehleketo. Mehleketo was placed on provisional liquidation on November 21, 2019, just days after more than R130m has been round-tripped between EOH and Mehleketo.</p>	<ul style="list-style-type: none"> • These transactions formed part of the inter-company consolidation strategy referred to above. • In the ordinary course of executing complex matters such as liquidations, EOH sought legal advice from an external expert prior to the transactions being concluded.
<p>While The Star has seen the liquidation papers, none of the information regarding the suspicious flow of funds was disclosed to the court.</p>	<ul style="list-style-type: none"> • We deny that the transactions were suspicious as these transactions formed part of the inter-company consolidation strategy referred to above. • These transactions did not have any bearing on the facts or the burden of proof to satisfy a court to grant a liquidation order, as Mehleketo was unable to pay its debts going forward. • Furthermore, the accounting records would have, in any event, become available to liquidators upon appointment.
<p>The Star understand that SARS is owed in excess of R39 million.</p>	<ul style="list-style-type: none"> • SARS does have proven claim against Mehleketo's insolvent estate to the value of R19 997 456,41. • We have no knowledge of the R39m quoted and as Mehleketo is under the control of the liquidators, we no longer have access to the SARS profile of the company or any involvement in the entities tax affairs. • It is also clear from the application that the liquidation was served on SARS on 18 November 2019 and it is not clear why The Star does not mention this in view of the fact that they had sight of the application
<p>The paper reached out to all the board members of EOH to establish whether they knew of the tax fraud and whether they had been aware of the inter-company payments.</p>	<ul style="list-style-type: none"> • We deny that any fraud was committed. • SARS does have a proven claim against Mehleketo's insolvent estate to the value of R19 997 456,41. • In an attempt to assist Mehleketo turn-around and/or sell the company, EOH continued to pay R11,8 million of the SARS liability on Mehleketo's behalf.
<p>The Star also asked the directors whether a reportable irregularity had been raised by EOH's auditors, given the suspicious circumstances of the round-ripping of funds between EOH and the subsidiary just before its liquidation at the hands of another EOH subsidiary.</p>	<ul style="list-style-type: none"> • We deny that there are any irregularities which require reporting and no reportable irregularities were identified by the Group's external auditors.
<p>EOH CEO Stephen van Coller did not respond to questions put to him, but The Star received a response from Aprio on behalf of Fatima Newman, group risk officer of EOH.</p>	<ul style="list-style-type: none"> • The questions were directed to the EOH chairperson, who sent the questions to Stephen van Coller. Stephen referred the matter to Fatima Newman, the Group Chief Risk Officer. She is a duly authorised spokesperson of EOH, a

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	<p>member of the senior leadership team and an executive director.</p> <ul style="list-style-type: none"> • Notwithstanding our numerous requests, the journalist and editor of the Star refused to engage with EOH.
<p>“EOH would like to advise that in late 2018, a new group treasury was appointed for the first time in EOH, following the appointment of a new CEO. Legacy issues were identified in terms of how loans had previously been accounted for across the group via journal entries and not always through the settlement of cash transactions, as is accepted financial practice. Intergroup loans had been granted haphazardly and not in a controlled way through a treasury company such as that which exists in many large organisations. At this time, management started a process of cleaning up the balance sheet. Historically, EOH did not have a treasury function and had loaned money across over 270 wholly-owned subsidiary companies depending on which subsidiary had cash at the time. This meant that there was a complex set of loans between all the group subsidiaries. As part of the balance sheet clean-up a process started whereby the inter-company loans were consolidated and transferred to a holding company, as would be standard in any large Group.” EOH said</p>	<ul style="list-style-type: none"> • The comments quoted by The Star were incomplete. The last three paragraphs of EOH's response were omitted and these paragraphs were critical to understanding the true nature and impact of the transactions.
<p>No answers were given by EOH on how the company preferred itself above other creditors and Sars. Responding to questions, Sars said they were looking into the transactions. “We appreciate the role played by media in revealing these things. We are seized with the matter and will respond accordingly in due time.” Sars said.</p>	<ul style="list-style-type: none"> • EOH was not asked questions relating to SARS. • As already stated, Impact HR Resourcing (Pty) Ltd brought the application to liquidate Mehleketo on a lawful basis and as evidence thereof, Mehleketo was placed under provisional winding up on 21 November 2019 which was subsequently made final by an independent court of law. • The winding-up process is managed by a liquidator who is independently appointed by the Master of the High Court. • EOH holds no oversight or authority over the liquidators and their decisions, who by law must act in the interest of the general body of creditors. • As set out above, Sars has been fully appraised of the liquidation at all times.

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