

**COMMISSION OF INQUIRY OF THE PUBLIC INVESTMENT CORPORATION**

**HELD AT**

**TSHWANE, PRETORIA**

10

**13 MARCH 2019**

**DAY 15**

20

**PROCEEDINGS HELD ON 13 MARCH 2019**

**CHAIRPERSON:** Good morning.

**ADV JANNIE LUBBE SC:** Good morning Mr Commissioner, members.

**CHAIRPERSON:** Yes Mr Lubbe?

**ADV JANNIE LUBBE SC:** Morning Mr Commissioner the witness will continue if you can just perhaps warn him that he's still under oath to speak the truth.

**CHAIRPERSON:** Yes what's his name again?

**MS GILL MARCUS:** Mr Schiel.

**CHAIRPERSON:** Mr Schiel you're still under oath okay, thank you.

10 **ADV JANNIE LUBBE SC:** Thank you. Mr Commissioner I forgot to mention yesterday that Mr Schiel is one of these exceptional persons who's been in the employ of the PIC for the past nine years.

**CHAIRPERSON:** I thought he said he was the longest serving.

**ADV JANNIE LUBBE SC:** Yes in his department yes. Mr Schiel I want you to deal with the topic that you mentioned as HR related matters, the employee perspective in your statement and you will realise that we had evidence before the Commission on these issues that you're raising in your statement will you just then briefly deal with your own personal experience and perceptions of these issues?

20 **MR ALVIN SCHIEL:** Thank you Sir. I think it's important to state that this very much from my own experience over the time and has a perspective as an employee for the last eight going on nine years. So the PIC culture of HR or related to HR has become one of threat and fears as many of my colleagues have alluded to. In respect of fear we see the executives often preach a story of fail safely but the reality is that no one will really do anything until you fall out of favour and the issue of falling out of favour is that there's no warning of this so it can be big or small and the effect is that everyone

tries to do what they believe is necessary to keep the executive happy because behind closed doors they yield the power and the sword.

**CHAIRPERSON:** Can you just give me a moment. Can I get somebody who will attend to the air-conditioning please.

**MR EMMANUEL LEDIGA:** It's too hot.

**CHAIRPERSON:** It's hot up here.

**MR EMMANUEL LEDIGA:** It's too hot here.

**MR ALVIN SCHIEL:** In other words you need to stay below the radar and if not the proverbial kitchen sink will be thrown at you as is the case with most general  
10 employees by the internal legal counsel Ms Pamela Paler who will do whatever it takes in evidence and I will bring evidence to this later, and you will be purged at whatever the cost, even if it means the company has to pay a CCMA settlement or otherwise but to come back from a proverbial culling simply does not happen. No matter the level, whether the lowest ranked staff member or executive the message is clear, toe the line or else the best you can hope for is a CCMA settlement.

In terms of threat the threat of one's bonus being on the line is an ever present and real risk and is a most effective tool in managing compliance. The sword that is always above your head is ready to fall at any time as it were. In an environment where many of us are paid below a market related cost to company for most the bonus  
20 represents the justification to stay at PIC as it brings one closer to market. So for the most part the PIC bonus is not simply a bonus but a vital part of income because after all we all have families and loved ones that look to us for financial support, and though mentioned in hush tones given the secrecy that shrouds bonuses as previously mentioned, the unofficial understanding of staff is the one who falls into disfavour with management will feel it severely in the pocket come bonus time irrespective of real

performance. And heaven forbid that the one who's in disfavour is a department head because then the whole department may suffer the same fate, this was the case to my knowledge in the IT department two years back.

Comments like be sure to add that to your BSC when perceived issues arrives only reinforced the idea that what you have contracted on earlier in the year is irrelevant and that any time the goal post can be shifted. This is a favourite line of the executive and many Exco members. To staff this is simply a very poorly veiled threat. For long serving members like myself the BSC process is somewhat of a joke and the reality is irrespective of what you have contracted the score that you will get after the  
10 moderation committee will be whatever management decides. Though officially there is a mechanism to appeal, experience has taught, and I have tested it myself, that at best your score will remain the same. For some questioning the executive has led to a lower score. So the message in other words is clear, accept the score given or risk being made an example of.

The process as a whole is simply viewed as a ticker box exercise. In most years gone by contracting for the year is only concluded in August or September which is already halfway through that respective year. The last two quarterly reviews as indicated earlier are simply done by staff scoring themselves with very little and in most cases no feedback from management while final scoring differs from the interim scoring  
20 this would remain the case unless you felt that you scored above average which in most cases for general staff is not accepted as a general rule. It is common place then for management in the company to score well above the general staff which begs the question of how it's possible that the management and company can do so well with so many average employees.

Moderation as done by Exco is simple, anyone who is not favour for real or

perceived reasons is dealt with. Anyone who has a high score best have toed the line or your score will simply be cut back to the mysterious bell curve which HR constantly refers to and this would also then obviously mean that your executive head would also have to be seen as compliant otherwise you would automatically suffer on the scoring. Between April and June, tongue in cheek, is the friendliest time to work at PIC because even the slightest issue or incident could have a direct financial consequence with the year end considered after April.

From an HR perspective most would attest to the friendliness and helpfulness of the business partners who serve as the various divisions. The general  
10 view though is that this is sadly where it stops. HR staff toe the line or else, as I've mentioned there's mechanisms to deal with people who don't. With many experienced and senior HR staff members having left in the past three years the message is clear, one toes the line or one leaves. When it comes to policies and grading these are routinely and unilaterally changed. If you consider grading for example, in my case, my position was downgraded in terms of the scales so that I was excluded from the LTI pool despite having eight years service and previously qualifying. This was subsequent to one of the benchmarking exercises as mentioned earlier done by HR. In my case the benchmarking considering other companies was based on a sample of just two companies. Both companies do not prioritise my position within the structure and so on  
20 that basis I was downgraded.

Along with the grading policy is also changed. Along the lines of the LTI or long term incentive this was changed with immediate effect. Effectively I view it in my case as a demotion as it's a benefit that I'm no longer able to enjoy. This was done with absolutely no regard to staff in terms of the effect it has on them. Further it is in my view without support in terms of fair labour practice in that it is done unilaterally.

For example a change that happened in the policy was the policy on long term incentives broadly used to state to qualify for a long term incentive a staff needed to be on a certain grade and achieve a score average of 3.5. If achieved – sorry you would earn the LTI in this year but in terms of it being a retention strategy you would only get your payout after three years of having maintained a 3.5 average. The policy however was changed to accommodate the new grading while at the same time the wording was changed to say that you now need to score a minimum of 3.5 for all three years. It also came into effect immediately so rather than effecting my LTI for three years from now I lost the two years previous LTI's which in my view I should have qualified for prior to the  
10 change at minimum.

For me this is significant because it relates to between 20 and 25% of my annual income that is immediately removed. I personally raised this issue with the Head of HR Mr Chris Pholwane who effectively told me that that is the way it is and that should you wish to challenge it you can raise a grievance or in other words you can complain to the people who did not care when they changed the policy in the first place. For the most part staff don't raise issues with HR as experience has taught that rather than being viewed for what it is, it is effectively pinning a target on one's own back.

No one I know at HR or rather at PIC believes the Head of HR has the staff interests front and centre. Rather he is seen as an enforcer as it is through his  
20 department that disciplinarys are brought. This in my view is based on the fact that when he started at PIC he seemed to make all the right noises but when the annual report was published in the following year he earned a bonus less than many staff, the message was then clear. He needed to change his view to comply and in my view he now fully complies and it is on this basis that he effectively shut down my objection regarding the regarding.

Further to the above last year when bonuses were delayed it was the general staffs view that we were being held ransom by the executive management's submission to Treasury for approval of their own bonuses. That is staff bonuses are approved at a Remco or a Board committee level whereas executive bonuses are approved at a Treasury level but given that the numbers of executives may need to be reworked given Treasury feedback all bonuses were held back and this is rumoured to have happened in the previous year where executives bonuses were shifted between LTI and STI to make it acceptable to Treasury.

Our suspicions that our bonuses were held back were confirmed by the Board Chairman given the lack of clear and honest communication from an HR perspective we will never know. The question in itself has led to an increased level of distrust in the Board and executive management as a whole. Ultimately it is this distrust and lack of transparency that has led many staff to joining a union in an attempt to unionise the PIC and force management and the Board to communicate openly and honestly.

**MR EMMANUEL LEDIGA:** Question, I just wanted to check are you saying that those bonuses should be treated differently and maybe paid at different times, you know the executives versus the staff?

**MR ALVIN SCHIEL:** Through you Commissioner it's our understanding as staff that the bonus pool for staff is approved at a Board subcommittee level and as such once that's approved it's our understanding that those bonuses are immediately payable. The Treasury approves the executive bonus pool which has to do with the company score etcetera so it's effectively as we understand two separate processes and that was confirmed to us by the Chairman last year but we're not exactly 100% sure of that.

**MR EMMANUEL LEDIGA:** Just another one is that are you also saying that there

could be a problem where sort of the executive heads bonuses are, the staff bonuses are taken away by the executive heads, is that possible?

**MR ALVIN SCHIEL:** I can't comment on that specifically because I don't know the details but it's our understanding that how bonuses are calculated the calculation is the matter that is held back because then monies are shifted between LTI and STI depending on how the feedback they get from Treasury. So I don't, I'm not saying that I believe is taken from staff but it's held back in order to be able to potentially recalculate the split to suit the executives.

**MR EMMANUEL LEDIGA:** Depending on what the Treasury says and all that, okay.

10 **MS GILL MARCUS:** Just to clarify as well, is there one bonus pool irrespective of whether it's executive or staff that all of the funding for bonuses comes out of or is there an executive pool and a staff pool?

**MR ALVIN SCHIEL:** Ma'am this is one of the things that we as staff are not 100% clear on in terms of the communication. I would imagine there are two pools of sorts because obviously Treasury approves the senior or the executive level of bonuses but this is one of those things that we as staff are not aware of.

**MS GILL MARCUS:** Can we get clarity on that, thanks.

**ADV JANNIE LUBBE SC:** We will do that Mr Commissioner.

20 **MR ALVIN SCHIEL:** Whistleblowing, though much fanfare was made about the whistleblowers hotline including e-mails and randomly placed signs I don't believe anyone at PIC trusted it. There are a number of reasons for this. There are little to no significant audit findings despite many knowing of questionable deals and breaches of policy audit never seemed to flag significant issues. In terms of the Auditor General the auditors were similarly seemed to never find significant problems and it was rather a well known fact that auditors from the Auditor General's office were treated with

contempt and in most cases as it were sent packing in no uncertain terms and this, whether was perceived or not, this is the feeling of staff that we will give them information and they have to accept it as that and end of story. So staff do question their ability to act independently.

From a Board level over the years issues like Ayo as it is before this Commission, was sent back for ratification where as the reality is there appears to be significant policy and controls breaches. In other words the action taken by Board will effectively fix a mistake as it were, effectively neutralising a whistleblower. In other words the Board was seen to cover for its mistakes that could amount of billions with a  
10 simple fix like a ratification while staff were fired or taken to disciplinary for minor policy infractions where little or no actual damages were suffered by the company,.

Further to this there's also the perception of the witch-hunt as previously discussed and I won't go into detail, but given the actions in the past where those that are accused seem to go after those that provided information it just proved to staff that rather than being an open and transparent independent investigation those fingered through such accusations would personally search for the evidence. The message was therefore clear you whistleblow at your own peril.

Further to this the actions of Board and management from a staff perspective is what we see unfolding before this very Commission. The Ayo transaction which has  
20 been flagged rather than have all suspended, the Board saw fit to suspend the compiler Victor. As the lowest ranking staff member involved in the transaction and as well as the head of department who was out of the country at the time. But given that the general view of suspensions is that an accused is suspended when they might interfere with an investigation or intimidate witnesses the question is how can it be justified that he, Victor, because he seemed uncooperative according to audit was to be suspended

while those who approved and actioned the deal are for the most part left to carry on business as usual at PIC.

As we sit here there are rumours that individuals who have been called to give evidence before the evidence leader Adv Lubbe are then summoned to account for this on the seventh floor. Whether real or not, the rumour in itself is intimidating for most.

**MS GILL MARCUS:** Sorry can I ask you Adv Lubbe are you aware of any of this and having heard about this have you checked on any aspect of this with the PIC?

**ADV JANNIE LUBBE SC:** Mr Commissioner it has been reported to me and we're  
10 busy following it up and you would have noticed that with the witnesses coming now to the Commission they are asked before they start testifying whether it is their statement, whether the evidence leader has persuaded or asked them to put anything in the statement or take out of the statement and that is because at the Board meeting last week the Board were informed that the evidence leaders ask potential witnesses to bring their statements in the Word format so that the evidence leaders can chop and change and tweet these statements for the Commission and we're also busy following that up which is factually not correct. I have a stronger word for that but it's factually not correct. Mr Schiel before you conclude I missed something yesterday and that is to ask you these amendments to the contract that you testified could you find any proof  
20 that it was authorised?

**MR ALVIN SCHIEL:** No there was no proof of the amendments to that contract in terms of the original offer to the rental agreement.

**MS GILL MARCUS:** Then if we're going back there Advocate I'd like to just ask that the question and the costs implication of changing the company that was doing the fitting what the company is, who the directors of that company is, was there a tender

process for that? And, did you have to, did PIC have to pay the company that had been contracted that was terminated for the contract that was in place even though they were terminated was there costs involved in meeting obligations there because obviously they would have done some work and been committed so there were two elements of costs, the company in the termination and the company and the company being employed? And whether there was a tender process and the name of that company and all the details around it?

**ADV JANNIE LUBBE SC:** Thank you Mr Commissioner we are already in the process of following that up and there's one aspect I forgot, yes Mr Schiel can you just tell the  
10 Commission about your own disciplinary?

**MR ALVIN SCHIEL:** Thank you, through you Commissioner as I mentioned yesterday I'm personally involved in a disciplinary which commenced on the 15<sup>th</sup> January and this process in my view is similar to those of others is without merit and a clear example of the victimisation that is rife at PIC. Though there was an appointment made without requisite approval in terms of the delegation of authority and procurement policy on one of my projects it was in fact not made by myself but rather my manager the National Development Manager and signed off by the Executive Head of Properties after I refused to make the appointment without the needed approval being in place. And on  
20 Monday I was actually found guilty of two charges related to this disciplinary and the sanction in terms of the policy for these two charges is dismissal and I believe that it will likely lead to my dismissal later in this month.

**ADV JANNIE LUBBE SC:** That is the evidence Mr Commissioner.

**MR EMMANUEL LEDIGA:** Just a question the AG, the Auditor General you are saying that there were most times like sand pecking, can you expand further because that could be a worrying thing you know given that we read the annual reports and all that

and we generally think they should be right?

**MR ALVIN SCHIEL:** So my ... (intervention)

**MR EMMANUEL LEDIGA:** It is something maybe we might want to follow up just you know to ensure that it's done properly if not, if it's not done properly.

**MR ALVIN SCHIEL:** Through you Commissioner, yes my experience in this matter directly is limited but what I can say for example is in relation to the fruitless and wasteful expenditure to which my evidence relates. There was no finding in relation to this despite this amount being at least probably R17 million which begs the question why it was not flagged. It's my understanding that there were some questions around it  
10 but reasons were provided to the Auditor General and they were forced to accept these reasons on whatever basis whereas the evidence does not necessarily support that finding.

**MR EMMANUEL LEDIGA:** So we should follow it up Adv Lubbe.

**ADV JANNIE LUBBE SC:** We'll do that Mr Commissioner. Mr Commissioner the next witness is ready can I just ask for a brief adjournment, five minutes will do.

**CHAIRPERSON:** Yes Mr Schiel there might be paragraphs or subparagraphs that you jumped and didn't read into the record, do you confirm the correctness of those parts of your statement?

**MR ALVIN SCHIEL:** Yes Chair my statement is signed and I confirm that all that  
20 information is correct.

**CHAIRPERSON:** Yes thank you. Thank you very much for availing yourself to come and give evidence here, we appreciate it very much thank you.

**MR ALVIN SCHIEL:** Thank you Commissioner.

**CHAIRPERSON:** We'll adjourn until you call us. Thank you.

**INQUIRY ADJOURNS**

**INQUIRY RESUMES**

**ADV JANNIE LUBBE SC:** Mr Commissioner, we are ready to proceed. The next witness is Mr Martinus Phillipus De Jonge and he is ready to take the oath.

**CHAIRPERSON:** Good morning, Mr De Jonge.

**MR MARTINUS DE JONGE:** Morning, Commissioner.

**CHAIRPERSON:** Your full names are as mentioned by Advocate Lubbe?

**MR MARTINUS DE JONGE:** That's correct, Commissioner.

**CHAIRPERSON:** Martinus Phillipus De Jonge?

10 **MR MARTINUS DE JONGE:** Have you got any objection to taking the prescribed oath?

**MR MARTINUS DE JONGE:** No, Commissioner.

**CHAIRPERSON:** No objection? Do you swear that the evidence you're about to give will be the truth, the whole truth, nothing but the truth? Raise your right hand and say 'so help me, God'.

**MR MARTINUS DE JONGE:** So help me, God.

**CHAIRPERSON:** Thank you. You may be seated.

**ADV JANNIE LUBBE SC:** Thank you, Mr Commissioner. Mr De Jonge, just for the record, is it correct that you are here under a formal witness subpoena?

**MR MARTINUS DE JONGE:** That's correct, Commissioner.

20 **ADV JANNIE LUBBE SC:** Why?

**MR MARTINUS DE JONGE:** Because I just make sure that I am covered when I testify in the hearing.

**ADV JANNIE LUBBE SC:** In fact, is it correct that you requested a subpoena before coming to the commission?

**MR MARTINUS DE JONGE:** That's correct, Commissioner.

**ADV JANNIE LUBBE SC:** Will you then please state for the record your – who you are, your qualifications, one, two, three, of your statement?

**MR MARTINUS DE JONGE:** Thank you, Commissioner.

“I, Martinus Phillipus De Jonge, declare herewith as follows: I am an adult male with identity number 6402185153089 residing at 338 Angelo Street, Faerie Glen, Pretoria with contact number 082 768 9303. My work address is the Public Investment Corporation, Menlyn Maine Centre, Waterkloof, with contact number 012 742 3546.

10 The following is a summary of my tertiary qualifications: University of Northwest, B Accounting; University of Pretoria, BCom Honours Accounting; UNISA, certificate in the theory of accounting; and I wrote the Board Exams in 1993 to become a chartered accountant. I attended the University of Pretoria, IPSA diploma, insolvency law in 1999 and I done my Master’s degree through Pretoria in 2002. In 2015 I wrote the Financial Services Board exams, FIS1 and FIS5.

20 The following is a synopsis of my previous employment until 1 November 2008, the date I joined the Public Investment Corporation: ’85-’88 I done my articles at Theron Du Toit. They are currently PWC. ’80-’90 I served my – the South African Defence Force compulsory military service. ’91-’95 at Iscor Pension Fund. I started as an accountant with the following duties: budget control systems, control and development, monthly management reports, taxation and VAT returns and investment

administration. I was later promoted to Chief Accountant with the following added responsibilities: Supervise of personnel, treasury function, foreign currency transactions, Reserve Bank approvals, monthly development reports and then preparation of the financial annual statements. In '96-'99 I joined Boland Bank, who later became BO Bank and then was bought out by Nedbank. I was appointed as the Regional Credit Risk Manager for my northern regions with my main responsibilities supervision over personnel and risk management at 14 branches, management and control over the region's active finance book, evaluation of client risk and formulation of risk profile for each client and financial analysis of client financial statements when they apply for funding. 2001-2008 I joined University of South Africa as a lecturer, where I lectured financial accounting for the honours and CTA students. Simultaneously, 2002 and 2008, I had a contract appointment with the Land Bank where I conducted all the forensic and fraud investigations for them. And then on 1<sup>st</sup> of November 2008 I joined the Public Investment Corporation as Senior Project Manager, Due Diligence, reporting to the head of Isibaya and later changed to the Senior Manager, Quality Assurance, Due Diligence, reporting to the Director, directly to the CEO, Dr Dan Matjila.”

**ADV JANNIE LUBBE SC:** Can you just, again, refreshing our memories, Isibaya, what exactly is that?

**MR MARTINUS DE JONGE:** Isibaya is effectively the PIC's unlisted leg. It's between

development finance and private equity.

**ADV JANNIE LUBBE SC:** Thank you. Can you proceed with 5?

**MR MARTINUS DE JONGE:** “My main duties included the development of a due diligence manual for unlisted investments to be used as a guide during the execution of the due diligence.”

I can refer you to Annexure A if you want me to take you through, Commissioner.

**ADV JANNIE LUBBE SC:** No, you can proceed.

**MR MARTINUS DE JONGE:** Is it fine?

10 “In addition to managing the process I had to oversee execution of the due diligences, interact with external due diligence service providers and sign off on due diligences to ensure compliance with the due diligence manual.”

**ADV JANNIE LUBBE SC:** Can I just again stop you here? I should have asked you in the beginning. We might not deal with one or two paragraphs in your statement. Do you confirm that that is your complete statement and you confirm the correctness of what is stated in that statement?

**MR MARTINUS DE JONGE:** That’s correct, Commissioner.

**ADV JANNIE LUBBE SC:** Thank you. You can then proceed.

20 **MR MARTINUS DE JONGE:** “In November 2008 the Executive Head, Development Investments, Roy Roger, called me in...”

**ADV JANNIE LUBBE SC:** No, it’s ... (indistinct)

**MR MARTINUS DE JONGE:** Oh, sorry, sorry, sorry.

“In addition to managing the process I had to oversee the execution of due diligences, interact with external due diligence

service providers and sign off on due diligences to ensure compliance with the due diligence manual.”

**ADV JANNIE LUBBE SC:** Can I ask you? It seems to me, what you’re stating there, you, effectively, you were in charge of the due diligence process.

**MR MARTINUS DE JONGE:** Overseeing it and make sure that it’s quality due diligences, ja. But ... (indistinct) normally executed, they worked themselves.

**MR EMMANUEL LEDIGA:** A question. A question.

**MR MARTINUS DE JONGE:** Sorry, Commissioner.

**MR EMMANUEL LEDIGA:** Did you have a team reporting to you? I mean, is that a  
10 big department?

**MR MARTINUS DE JONGE:** No, it was only me. When they appointed me initially the idea was that I would create a department looking at the due diligences, but that never happened. So it was only me reporting to – initially to the head of Isibaya and then to Dr Dan directly.

**ADV JANNIE LUBBE SC:** But, as I understand, when you got there you drafted this manual.

**MR MARTINUS DE JONGE:** That’s correct. It also went to the Executive Committee for approval. It was approved as the manual for due diligence processes. And actually, that’s correct, Commissioner. That’s just the index but the full manual is much thicker,  
20 but that’s just the index of the manual.

**ADV JANNIE LUBBE SC:** Mr Commissioner, would you like the witness to briefly take you through that Annexure A?

**CHAIRPERSON:** I would actually prefer that.

**MR MARTINUS DE JONGE:** Thank you, Commissioner. Okay, just the due diligence. The purpose of the policy:

“The purpose of the document is to explain the role of the due diligence and to set a framework whereby the process can be governed and managed.

Definition of due diligence: Due diligence is the process of reviewing the processes, methodologies, assumptions, calculations and the statutory information used in the preparation of financial and non-financial information accompanying an investment proposal to obtain reasonable assurance that information is fair, factual, correct and relevant and in order to assess the investment risk relating to an investment.

10

Areas of performance - key performance areas for the department or the diligence process: The key function of the due diligence unit is to develop the necessary systems and procedures to guide, assist, oversee and assess the due diligence process for Isibaya. The actual execution and reporting on individual due diligences will be the responsibility of the Project Managers or Portfolio Managers.”

Commissioner, I just mention the structure and the job descriptions changed since then. The Portfolio Project Managers is now Fund Principals, so there is a change currently at PIC.

20

“(Indistinct) Performance Areas: In addition to the key performance areas the due diligence unit will also be responsible for the following areas: Liaising with the external due diligence service providers; keep abreast of development in due diligence methodologies and financial modelling; training of Isibaya

employees regarding due diligence policies, processes and related practices to ensure that all material risk associated with an investment are addressed and mitigated; preparation and management of the due diligence budget.”

If you look at the diagram for due diligence you receive an instruction from the Project Manager, now it will be the Fund Principal. Receive an activity sheet. Receive a draft scope, clarify the scope of the times. That’s the actions that you have to take. Then the next step, assess the scope of the due diligence and identify the need for external experts. The normal actions were to consult with the Project  
10 Manager, identify the performance areas, decide on a level of outsourcing, finalise the scope indicated, work to be done in-house and externally. Submit to the Isibaya committee. At that stage it was our first committee. Conduct an in-house due diligence. We refer to section 5 of the document. Prepare documents for the investment committee and then submit investment committee for approval. Prepare a scope and request for approval for appointment of external service providers. Appoint external experts for relegation of authority and agree on the deliverables. Assessing the feedback from the external service providers and then to submit a report to the investment committee for approval. (Indistinct) specifications for the in-house due diligence. Now, there’s sections, I don’t have that sections here. It’s just ...  
20 (intervention)

**MR EMMANUEL LEDIGA:** You don’t have to go through the whole document.

**MR MARTINUS DE JONGE:** Okay. Okay.

**MR EMMANUEL LEDIGA:** Can I just ask? The PMC doesn’t come into play here? I see you refer ... (indistinct)

**MR MARTINUS DE JONGE:** Yes, the PMC, that’s the new structures. Ja. Ja, the

new structures, so that replace almost the Isibaya committee. The PMC1 is now the new replacement for... Actually, it goes back to the deals-clearing committee now.

**MR EMMANUEL LEDIGA:** (Indistinct)

**MR MARTINUS DE JONGE:** But I must also just comment, this was updated in 2012...

**MR EMMANUEL LEDIGA:** No, wait.

**MR MARTINUS DE JONGE:** Sorry. Sorry, sir.

**MR EMMANUEL LEDIGA:** Don't you have a PMC unlisted?

**MR MARTINUS DE JONGE:** Ja. Can I just...? This process was developed in 2012.

10 Then you will see later in my affidavit I was removed to the dealing team so since then I don't work on the process anymore.

**MR EMMANUEL LEDIGA:** Then we can go back to ... (intervention)

**MR MARTINUS DE JONGE:** But this is the process that I developed and implemented that stage when I was still the head of Due Diligence.

**MR EMMANUEL LEDIGA:** I think you can go back to your affidavit now.

**MR MARTINUS DE JONGE:** 5.1:

“Conduct the due diligence planning by completing the due diligence...”

20 **ADV JANNIE LUBBE SC:** No, no. Sorry. Sorry. You can go back to your affidavit now.

**MR MARTINUS DE JONGE:** Okay. Sorry, sir.

**ADV JANNIE LUBBE SC:** I think you must start at paragraph 6 now. The point is you were employed by the PIC to develop this manual. You did that. It was implemented. And then in November 2013 you were called in by the Executive Head, Development Investments. Can you continue from there?

**MR MARTINUS DE JONGE:** That's correct, Commissioner.

“In November 2013 the Executive Head, Development Investments, Roy Roger, called me for a meeting in his office. At the meeting he informed me that the CEO doesn't want me in the position of Senior Manager, Quality Assurance, Due Diligence anymore and that I will be transferred to the deal team as an Associate Principal, Social Infrastructure, reporting to the Fund Principal, Social Infrastructure. When requesting the reason for my transfer...”

10 **MR EMMANUEL LEDIGA:** Sorry. Sorry.

**MR MARTINUS DE JONGE:** Sorry.

**MR EMMANUEL LEDIGA:** What did that amount to? Was it a demotion? Or was it a sort of a bigger or more important position that you were now moved to?

**MR MARTINUS DE JONGE:** No, well, just straight over moved. I experienced it as a demotion because initially I reported to the CEO and now I report to a Fund Principal, but financially no implication.

**MS GILL MARCUS:** But in terms of the competencies that you were exercising in Due Diligence and the competencies you were exercising in this new social infrastructure which was the better use of your skill?

20 **MR MARTINUS DE JONGE:** Because my background is forensic investigations my preference was actually the due diligence side, so I would have preferred to stay as the head of Due Diligence.

**MR EMMANUEL LEDIGA:** But you were moved from there?

**MR MARTINUS DE JONGE:** That's right.

**ADV JANNIE LUBBE SC:** You testified that you, till that day, reported to the CEO of

the PIC. Did he tell you or did he advance any reasons why he didn't want you in that position anymore?

**MR MARTINUS DE JONGE:** No, I just spoke to Roy Roger, who indicated to me that was instruction from the CEO that I should be moved to social infrastructure.

**ADV JANNIE LUBBE SC:** You did ask him for the reason. What was his response?

**MR MARTINUS DE JONGE:** Well, when I requested reasons for my transfer he indicated that was instruction from the CEO and that I am free to dispute it, but a male at my age don't have much of a choice. No, that's true.

**ADV JANNIE LUBBE SC:** Now, you go to paragraph 7.

10 **MR EMMANUEL LEDIGA:** Just a quick one. Just a quick... On the seventh floor of the... Who's on the seventh floor? Because I've heard a lot about the seventh floor.

**MR MARTINUS DE JONGE:** To my knowledge it's only the CEO and the CFO, but I can't comment.

**MR EMMANUEL LEDIGA:** The whole floor?

**MR MARTINUS DE JONGE:** The seventh floor, ja.

**MR EMMANUEL LEDIGA:** And the heads, where do they sit?

**MR MARTINUS DE JONGE:** They're sitting with the departments.

**MR EMMANUEL LEDIGA:** What floors...? Oh, ... (indistinct)

**MR MARTINUS DE JONGE:** Our department, Roy sat with social – on the sixth floor  
20 with us, so they sit, my understanding, with their departments, ja.

**MR EMMANUEL LEDIGA:** We might need to just visit and get the layout and all that, ja. Okay.

**MR MARTINUS DE JONGE:** Okay, thank you, Chair.

“In January 2014 I assumed my duties as a Social Principal, Social Infrastructure, focusing on sourcing, assessing and presenting

transactions to the investment committees.”

Alright, sorry. Okay.

“At the beginning of February 2016 I received a call from the CEO for a meeting in his office. He requested that I conduct a forensic audit on the preparations of AFGRI Poultry (Pty) Ltd t/a Daybreak Farms. After the meeting I drafted a request for a proposal to be sent out to the prospective service providers to conduct the post-investment due diligence on Daybreak Farms. The proposals received were vetted and it was recommended that Ernst & Young and Deloitte be appointed to conduct the post-investment due diligence for us (refer Annexure B) for the approval of the appointment of the two service providers.”

**ADV JANNIE LUBBE SC:** Can I just interrupt again? I apologise for doing that. Till this meeting with the CEO in February 2016 was there anything you had to do with this entity Daybreak Farms, any knowledge of that?

**MR MARTINUS DE JONGE:** No. No. I wasn't part of the deal team that worked on AFGRI Poultry.

“After completion of their respective assessments both service providers provided us with their reports or findings and the copies of these reports were forwarded to the CEO and the Executive Head, Development Investments on the 14<sup>th</sup> of April 2016 for their perusal.”

**ADV JANNIE LUBBE SC:** Mr Commissioner, copies of these reports have been made available to the commission. There is a clause in both reports restricting these report being made public to third parties and for that reason it is not part of the official

statement of the witness but it is material before the commission, which I am entitled to place before the commission in terms of the proclamation.

**MR MARTINUS DE JONGE:** Thank you, Commissioner.

“At a board meeting of Daybreak Farms held on 26 April 2016 a resolution was taken to remove the CEO, Kholofelo Maponya, as CEO and also to appoint an agricultural advisory business, Into Africa Solutions Services (Pty) Ltd t/a Afrilogic with the assistance of Mike Kingston, an expert in the poultry industry, to assess the current status and propose a turnaround strategy for Daybreak Farms.”

10

**ADV JANNIE LUBBE SC:** Again, if I can interrupt you there? This entity, Daybreak Farms, is a matter that is under investigation by this commission and by the forensic team of this commission and from the results of this investigation thus far it appears that approximately after six months of making this investment this entity went belly up. Is that also according to your information?

**MR MARTINUS DE JONGE:** That’s correct, Commissioner.

**ADV JANNIE LUBBE SC:** And you refer to Annexure E and it refers to this board meeting the board of directors of the company held on the 26<sup>th</sup> of April and from the list of director it appear – it would appear that the two directors on this board representing the PIC were Mr Raja, Head of Unlisted, and Mr Magula, Head of Risk. Is that correct?

20

**MR MARTINUS DE JONGE:** That’s correct, Commissioner.

**ADV JANNIE LUBBE SC:** And I’m just asking you, I don’t know if you can comment, but the assessment of this investment and approval of this investment, would have it been within the department of Mr Raja as the Head of Unlisted?

**MR MARTINUS DE JONGE:** That’s correct.

**ADV JANNIE LUBBE SC:** Thank you. Carry on.

**MR EMMANUEL LEDIGA:** Ja. Question. I don't know whether you sort of talk further about it, but I just wanted to get: When you say the company went belly up, like, what do you mean?

**ADV JANNIE LUBBE SC:** It's practically insolvent, Mr Commissioner.

**CHAIRPERSON:** Insolvent?

**ADV JANNIE LUBBE SC:** Yes.

**MR MARTINUS DE JONGE:** Okay.

10                    “To secure its interests the PIC, as the biggest stakeholder of Daybreak Farms, decided to second myself to Daybreak Farms as the interim CEO on 13 May 2016. My responsibilities were to take over the function of the CEO, overseeing Afrilogic to ensure that they deliver on their mandate and to report back to the PIC on a regular basis.

**ADV JANNIE LUBBE SC:** Just to assist the commission, because of the dire financial situation of this Daybreak Farms an expert entity, Afrilogic, was contract to assist in the turnaround process. Is that correct?

**MR MARTINUS DE JONGE:** That's correct, Commissioner.

20                    **ADV JANNIE LUBBE SC:** And part of your duties as the acting CEO was to oversee that this expert assistance be properly executed?

**MR MARTINUS DE JONGE:** That's correct, Commissioner.

                      “As I was involved in the due diligence of PIC's transaction with AFGRI Group...”

                      And I don't know if I should explain ... (indistinct)

**MR EMMANUEL LEDIGA:** (Indistinct)

**MR MARTINUS DE JONGE:** Sorry.

**MR EMMANUEL LEDIGA:** Just a question, Mr De Jonge. Do you know whether a DD was done before the PIC put money in Daybreak?

**MR MARTINUS DE JONGE:** Yes, there was external due diligence, there was financial modelling and there was also valuations done, initial, before the transaction, ja.

**MR EMMANUEL LEDIGA:** Okay. Which might mean then they were not correct or something?

**MR MARTINUS DE JONGE:** Unfortunately I wasn't part of the team, so I can't  
10 comment on that.

**MR EMMANUEL LEDIGA:** Oh. (Indistinct)

**MR MARTINUS DE JONGE:** Mr Commissioner, you will have evidence on that score. The evidence will be, and I will later deal with this aspect in his evidence, that it was an overvaluation of this entity. Evidence will be presented that the realistic value of this entity at the time was between 6- and 800-million and the investment by PIC amounted to 1.2-billion.

**MR MARTINUS DE JONGE:** Commissioner, if I may, let me just explain the structure of AFGRI and AFGRI Poultry. If I can take you to Annexure I13, please?

**CHAIRPERSON:** This is the memo on business cycles?

20 **ADV JANNIE LUBBE SC:** That's correct.

**MR MARTINUS DE JONGE:** That's correct, yes. Thank you, Commissioner. Just to... AFGRI Group is the big AFGRI Group. They've got two – had two investments, AFGRI Poultry (Pty) Ltd and Kinross Feed Mill and part of the transaction that PIC became involved in, Kinross was sold, the assets of Kinross, was sold to AFGRI Poultry and AFPRO and PIC bought the share is AFGRI Poultry from AFGRI Group. So if I

refer to AFGRI that's actually the AFGRI Group and if I refer to Daybreak I refer to AFGRI Poultry.

**ADV JANNIE LUBBE SC:** In other words, AFGRI Poultry became Daybreak?

**MR MARTHINUS DE JONGE:** That's right.

**MR EMMANUEL LEDIGA:** Is it the left-hand side of the diagram?

**MR MARTHINUS DE JONGE:** Sorry, ja, no, I didn't put it on here. I'll just take you through what is Daybreak's structure.

**MR EMMANUEL LEDIGA:** Ja.

**MR MARTHINUS DE JONGE:** So I'll explain this initial structure. AFGRI is the initial  
10 shareholder. They sold Kinross to AFGRI Poultry and then PIC with AFPRO bought in  
the shares in AFGRI Poultry and became Daybreak Farms. Just to explain the ...  
(intervention)

**MS GILL MARCUS:** And what is MMI?

**MR MARTHINUS DE JONGE:** That's Maponya Group, the group of Kholofelo  
Maponya. Just explain the workflow of AFGRI Poultry: First you sit with the eggs.  
That's the parent group normally. They lay the eggs. Then the eggs go to the hatchery.  
Now, Daybreak had two sections. They've got contract grower – broilers and then their  
own farms. Then, after the eggs were hatched they will go to the broilers where they  
grow the broilers and they they'll go to the abattoir and then go to the storage and then  
20 they are sold. And then they also had then the feedlot that actually provide both sides  
with the feed, the feed mill that provided the feed to the group.

**MR EMMANUEL LEDIGA:** So it's sort of egg division, or egg area, and then there's  
the chicken area, the ... (intervention)

**MR MARTHINUS DE JONGE:** Ja.

**MR EMMANUEL LEDIGA:** Ja.

**MR MARTHINUS DE JONGE:** It's almost because of the – what do you call it? – the sensitivity of the type of agriculture. You have to keep them separate. So you sit with the egg side, the parents, that's separate, then you sit with the hatchery, separate, and then you sit with the broilers, where they grow the chicken, and then you sit with the... So there's a reason why it's so far from ... (indistinct). The positive point of Daybreak is they owned their own chain from the feed mill up to the final product. If I can go...? Commissioner, if I can go back to paragraph 12?

“As I was involved in the due diligence of PIC...”

At that stage I was still part of the due diligence, head of Due Diligence at  
10 that stage. The transaction with AFGRI Group, now, that was a separate transaction where PIC bought a stake into AFGRI Group, so that's a total different transaction.

“...I recall there was a condition set by the PIC Fund Investment Panel on 30 June – January 2014 that the poultry division...”

At that stage AFGRI Poultry, now Daybreak Farms.

“...be sold within 12-18 months because of its underperformance against other divisions in the AFGRI Group.”

Sorry for that typo.

**ADV JANNIE LUBBE SC:** I just want to – the commission to underline this, what is stated in this paragraph. It's a condition precedent with the deal of AFGRI that they  
20 must sell off Daybreak Farms because of underperformance. And the witness previously stated that is exactly the entity they then invested in 2015.

**MR EMMANUEL LEDIGA:** Just to check, is that – isn't it that many companies listed on the JSE did sell their chicken businesses out and all that?

**MR MARTHINUS DE JONGE:** I can't really comment on ... (intervention)

**MR EMMANUEL LEDIGA:** You can't comment on that?

**MR MARTHINUS DE JONGE:** According to me most of them preferred the full chain, because the problem, your biggest contribution cost is your feed, so if you don't control the input you don't make money because the margins are very small for chicken. So you have to control the whole... If you look at ASRA, you look at Rainbow, they all control the whole chain down from the beginning to the end.

**MR EMMANUEL LEDIGA:** Ja. And the PIC, was the PIC a big shareholder if AFGRI Group?

**MR MARTHINUS DE JONGE:** Not a big shareholder, but a shareholder in AFGRI.

**MR EMMANUEL LEDIGA:** In AFGRI?

10 **MR MARTHINUS DE JONGE:** Ja.

**MR EMMANUEL LEDIGA:** And then they spun out the Daybreak separately.

**MR MARTHINUS DE JONGE:** Ja.

**MR EMMANUEL LEDIGA:** And put money there?

**MR MARTHINUS DE JONGE:** That's... I'll get to my statement, the next ...  
(intervention)

**MR EMMANUEL LEDIGA:** Ja. Alright.

**MR MARTHINUS DE JONGE:** Thank you, Commissioner. At paragraph 13:

“The PIC was approached Matome Maponya Investments...”

That's MMI.

20 “...who is also the shareholder, a Part B shareholder, in AFGRI Group presented by Kholofelo Maponya to acquire Daybreak Farms from AFGRI. The PIC, through its private equity, private sector and small- and medium-enterprise investment panel passed a resolution on the 2<sup>nd</sup> of April 2015 to do the following investment into Daybreak Farms: Firstly, they bought the equity at nominal

value. PIC on behalf of GPF, UIF and CC, took up a 30% – 6% stake at R36,00. AFPRO, MMI-led B Group, take up 54% at R55,00 and then the management took up 10% at R10,00.”

So that gives the total equity of 100, so take out the equity from AFGRI Group.

**CHAIRPERSON:** Just confirming the amount, 54 shares. You said 55. Is it 55 or is it 54?

**MR MARTHINUS DE JONGE:** Sorry, 54, Commissioner.

**CHAIRPERSON:** 54?

10 **MR MARTHINUS DE JONGE:** 54. It's 36, 54 and 10. Can I...? Thank you, Commissioner. Then part of the balance sheet – part of the transaction was to actually take over the debt that was on the balance sheet at that stage. Now, the debentures issued by Daybreak Farms PIC on behalf of GPF, UIF and CC took up R892-million. Instruments, further instruments issued as a senior debt to Daybreak Farms PIC on behalf of GPF, UIF and CC take up 299 790 000, so R299 790 000,00.

20 “The procedure on the debt funding was mainly utilised to settle current debt on the balance sheet. AFPRO, the MMI-led company, contributed 10-million through a preference share issue by Daybreak Farms. MMI is also part of ... (indistinct) AGRI (Pty) Ltd, who is the B party in AFGRI Group.”

That I refer to in point 12.

“PIC also had exposure to Kholofelo Maponya or his intermediary companies through SA Home Loans and Razorite Fund Managers, which may have led to overexposure to one individual or company.”

**ADV JANNIE LUBBE SC:** Do you perhaps know what is the exposure of PIC to SA Home Loans and Razorite?

**MR MARTHINUS DE JONGE:** Unfortunately I wasn't part of that transaction. I can't really comment on the amount that was invested.

**ADV JANNIE LUBBE SC:** Mr Commissioner, these two entities, SA Home Loans and Razorite Fund Managers, are also part of the transactions presently investigated by the forensic team and evidence will be presented on the exposure of PIC and the shareholders of these entities.

**CHAIRPERSON:** Can I just confirm the second-last line of that paragraph on page 5  
10 where you speak of SA Home and Razorite Fund Managers, 'which may led'? Do you mean 'which may have led' but possibly didn't lead to exposure? I'm not sure what is meant there.

**MR MARTHINUS DE JONGE:** Ja, PIC funded Kholofelo or his intermediary companies to buy a stake into SA Home Loans and Razorite Fund Managers, so PIC was the funder for the transaction.

**CHAIRPERSON:** And was PIC exposed to...? You say 'which may led', or is it 'may have led'?

**MR MARTHINUS DE JONGE:** It may... Because you have to... Look, when you do investment you have to look at your total exposure to one person, that you don't  
20 overexpose yourself to one individual.

**CHAIRPERSON:** Yes.

**MR MARTHINUS DE JONGE:** And my comment is just it may led that we have overexposure to one person and – from an investment point of view.

**CHAIRPERSON:** I think I've got it.

**MS GILL MARCUS:** I think that's when you are looking at this again, Advocate. As we

have heard previously with other entities, the PIC tends to have looked at them individually, not cumulatively, in terms of exposure when they've done... We saw that with the discussions we had yesterday and previously. So when we're looking at this we would look at all three, Daybreak, Home Loans and Razorite, in relation to MMI, if I understand you correctly, that would be the total PIC exposure to that entity. Is that correct? Advocate?

**MR MARTHINUS DE JONGE**: Sorry. Sorry.

**MS GILL MARCUS**: I'm talking... No, I'm talking to the advocate. I'm talking to you, Mr Lubbe.

10 **ADV JANNIE LUBBE SC**: I didn't realise. Apology.

**MS GILL MARCUS**: Sorry. Sorry. I'm just saying that when... Because you indicated that these two entities, SA Home Loans and Razorite, as with Daybreak, are under investigation.

**ADV JANNIE LUBBE SC**: Yes.

**MS GILL MARCUS**: And therefore the point being made about having – may have led to an overexposure, we would be looking at the three as an exposure of PIC in the cumulative sense to those three?

**ADV JANNIE LUBBE SC**: Absolutely. Absolutely.

20 **MS GILL MARCUS**: And the decisions, even if they're made separately, it's the cumulative exposure to one entity.

**ADV JANNIE LUBBE SC**: Exactly. And it is – as it's pointed out, it is an exposure to Kholofelo Maponya.

**MS GILL MARCUS**: Do you have any idea what that cumulative exposure is at this point in time?

**ADV JANNIE LUBBE SC**: Not at this stage.

**MR MARTINUS DE JONGE**: Thank you Commissioner. Based on similar transactions during that period and offers received from competitors, because when I joined Daybreak as the CEO I went around to – but if there is an alternative neighbour to sell the company to recover some of our money, the market price for poultry business was the size of Blouberg Farms Trade at roughly 600 million to 800 million rand. And the fact that Daybreak Farms never made sensible profits under AFGRI, it seems as if the 1,2 billion paid PIC may have been an over-valued or over payment. But unfortunately I was not ...

**MS GILL MARCUS**: Sorry, just – sorry.

10 **MR MARTINUS DE JONGE**: Sorry Commissioner. Ja, unfortunately I was not part of the initial deal team so I cant comment on what was the base or the valuation of the initial transaction.

**MS GILL MARCUS**: But again Advocate Lubbe perhaps that is part of what that presentation that you are making will be because obviously what the basis was, that is a huge one third difference to the valuation.

**ADV JANNIE LUBBE SC**: It is.

**MS GILL MARCUS**: What to comprise that and it would be part of what you present to us in due course.

20 **ADV JANNIE LUBBE SC**: We will do Mr Commissioner and that is why I asked you to underline certain aspects. We know from the evidence of this witness a) that PIC in a previous deal said you must sell of this entity because of the underperformance of this entity. We know from his evidence that at the time of the transaction the debt exposure of this entity was roughly about 1,2 billion. Just the debt. And the investment into that entity was mainly used to settle the debt of that entity.

**MR EMMANUEL LEDIGA**: It is quite an issue when you spin out a company and you

burden it with debt, you know and you know it does happen sometimes and it is quite an issue.

**ADV JANNIE LUBBE SC:** Can you just explain to the Commission, I think I have missed that somewhere at the meeting held, I think it is F or G. No, E. At that meeting I believe the CEO Mr Maponya was fired.

**MR MARTINUS DE JONGE:** No, I don't want to say he was fired, but he was asked to step aside.

**ADV JANNIE LUBBE SC:** So I believe before that meeting he had a meeting with the CEO Dr Dan Matjila at the PIC.

10 **MR MARTINUS DE JONGE:** I am not aware of that meeting.

**ADV JANNIE LUBBE SC:** You are not aware of that. Do you know of a PWC report?

**MR MARTINUS DE JONGE:** I heard about a report but I didn't base because I was more on operational side, I did not use that PWC report as my guidance when I was the CEO at that stage.

**ADV JANNIE LUBBE SC:** I also place on record Mr Commissioner that we have information that PWC provided a report to the CEO about the financial situation of Daybreak Farms prior to this board meeting. And it is because of that PWC report that the CEO was asked to step aside. And the Chairperson of that entity also resigned at the same time. Is that correct? Can you confirm that?

20 **MR MARTINUS DE JONGE:** I can confirm that, ja.

**ADV JANNIE LUBBE SC:** And it is as a result of that stepping aside and resignation of the Chair that you were then asked to go to the Daybreak Farms as the acting CEO?

**MR MARTINUS DE JONGE:** That is correct Commissioner.

**ADV JANNIE LUBBE SC:** Sorry I took your off a ...

**CHAIRPERSON:** Sorry, but when you were asked to go and take up that position, had

PIC already committed to getting involved in that company?

**MR MARTINUS DE JONGE**: You see that was the reason for the appointment of the experts to assess the current situation and to propose a turnaround plan which will then be utilised later on for what PIC should do with that deal.

**ADV JANNIE LUBBE SC**: Just the chronology Mr Commissioner is the investment was in 2015, by the PIC and very shortly thereafter this was the board meeting with two PIC Non-Executive Directors sitting on the Board and the CEO Mr Maponya then asked to step aside, being replaced by the person from the PIC Mr De Jonge to act as the CEO of the company.

10 **MR MARTINUS DE JONGE**: Thank you Commissioner. The underperformance of Daybreak Farms to the point that they become technically insolvent was the unusual high feed prices experience during 2015, 2016 and the management decisions that lead to the loss of critical institutional memory. See there is an attachment hereto Annexure I for progress reports that I was sent through to PIC on findings and access during my time at Daybreak.

**ADV JANNIE LUBBE SC**: I want you deal more in more detail with the loss of critical institutional memory. It has been put in very soft terms if I may call it that. Can you just explain it more?

20 **MR MARTINUS DE JONGE**: Ja, what happened when Daybreak Farms was taken over from AFGRI within three to six months almost all the executives were all dismissed or there was apparently what do you call it? Change of business and they were retrenched. But all of them went to the CCMA and they were actually what you call given severance packages to go. So one moment there was no executives actually left in the company.

**ADV JANNIE LUBBE SC**: And what was the situation with the salaries of the new

people appointed by Daybreak/

**MR MARTINUS DE JONGE**: With the new appointed, although they had experience in a similar business, but they did not have experience in poultry businesses. The salaries were extremely higher than the normal salaries that was paid to the previous guys.

**ADV JANNIE LUBBE SC**: And what was the financial implication of that on the institution Daybreak Farm?

**MR MARTINUS DE JONGE**: Well within – when I came in they made a loss of almost 200 million rand within a year period.

10 **ADV JANNIE LUBBE SC**: Carry on.

**MR MARTINUS DE JONGE**: As there was a delay in the approval of ...

**MR EMMANUEL LEDIGA**: Sorry, sorry, before you go further. Feed prices, you know they can have quite a big impact on this kind of businesses. What was the issue there? Because you said that they do control part of the value chain on the feed prices. Just explain further there and then the impact.

**MR MARTINUS DE JONGE**: Okay. No, Commissioner the biggest part of the feed is maize and soya. Soya price was normally within the R4 000,00 per ton. It went up to almost R8 000,00 per ton. So it was extremely high.

**MR EMMANUEL LEDIGA**: From when, from what price? Come again.

20 **MR MARTINUS DE JONGE**: Roughly R4 500,00 it went up double at that period. So that had a big impact, we have to admit that. And the maize price is always normal here around R2 000,00 it went almost up to R4 000,00. So that had a big impact. So you raw material that you had to buy and because of the cash flow problems that Daybreak had, they have to go and buy raw materials at cash, they didn't get facilities to buy on credit. And that makes it extremely difficult to manage at the business that

...[indistinct] the time that I was with the company. Thank you Commission. As there was a delay in the approval of the turnaround plan by the PIC the agricultural specialist informed Daybreak Farms on 20 October of the intention to withdraw, where after I also requested to be moved back to my current position at the PIC at the end of November 2016. Since my return back from PIC I have not dealt with or interacted with Daybreak Farms from an investment or operational point.

**ADV JANNIE LUBBE SC:** Do you know whether the PIC had to recapitalise this entity? Did they put in more money in other words into this entity?

**MR MARTINUS DE JONGE:** During my period they gave a guarantee to AFGRI or  
10 through Landbank to AFGRI of 200 million rand to help, which helped us to take us through that interim period. But the final – that is why the agricultural economists decided to withdraw because they cant interact or make agreements because the company is technically insolvent, so you become personally liable. So that is why they withdrew. And it was very important that the debt should be capitalised to get the balance sheet in a healthy or solvent position again.

**ADV JANNIE LUBBE SC:** The other interesting aspect of this transaction Mr De Jonge, I believe there were transaction fees paid.

**MR MARTINUS DE JONGE:** That is correct Commissioner. Normally PIC charge a  
20 1% transaction fee for the expenses, due diligences. That is a normal practice. So in this case it was 1% for PIC and 1% for MMI. That amount roughly to R13 million, R13 million that was paid.

**ADV JANNIE LUBBE SC:** And if I understand that correctly, MMI who came to the PIC in financial difficulties got a transaction fee of R13 million rand.

**MR MARTINUS DE JONGE:** That is correct Commissioner.

**ADV JANNIE LUBBE SC:** We have information ...

**MS GILL MARCUS:** 13? Is it 13 or 30? 13.

**ADV JANNIE LUBBE SC:** 1 3 Mr Commissioner.

**MS GILL MARCUS:** Is the transaction fee.

**ADV JANNIE LUBBE SC:** But we have information it was much more. It is still under investigation and we will present evidence later on this score.

**MS GILL MARCUS:** I am assuming in your investigations you would explain why there was a transaction fee to Mr Maponya at all and when it was his business.

**ADV JANNIE LUBBE SC:** It was, yes. It was, we will explain that. This is one of those stories, luckily before this Commission Mr De Jonge which has a happy ending. I  
10 believe that this entity has now been turned around and is making a profit, it is in fact improving.

**MR MARTINUS DE JONGE:** If I can just comment Commissioner, when I left in November the company started making small profits and I understand now they are making good profits.

**MR EMMANUEL LEDIGA:** Ja, just to check a couple of things. There is a section on the turnaround plan.

**MR MARTINUS DE JONGE:** Yes.

**MR EMMANUEL LEDIGA:** Here, I just wonder maybe you – whether you could make some pointers there as a first point. The second point is the 1,2 billion which was  
20 pulling in terms because it is debt, is it being serviced at the moment? Do we know? Ja, and whether to is that was there new management that came through during that turnaround, turnaround time?

**MS GILL MARCUS:** Can I just add to that? Is the question of the 200 million guarantee is that no longer in place as it is no longer needed or is it still in place? That was from if I remember correctly from what you said that was from the Landbank. And

is the shareholding the same as at the initial?

**MR MARTINUS DE JONGE**: Okay. Thank you Commissioner. Just on the turnaround I prefer that the specialists rather come and testify on their own turnaround plan. I am not very technical on that side, so I prefer that they do that. On the 200 million guarantee, when I left that guarantee was still in place. I am not sure about that. And then the 1,2 billion up to the stage when I left in November 2016, that was not serviced and I am also not involved I am not sure if they servicing at this stage. And then new management, they brought in mister – what is his name? Seberii. He is the Acting CEO now and it is doing good at this stage.

10 **MS GILL MARCUS**: The shareholding remains as well?

**MR MARTINUS DE JONGE**: No, the shareholding changed because with the restructuring, that is how my understanding is, the shares were taken back from AFPRO because of non-performance and then the shares was split between the three clients of PIC. GPF, UIF and CC.

**MR EMMANUEL LEDIGA**: Just to check.

**MR MARTINUS DE JONGE**: Sorry.

**MR EMMANUEL LEDIGA**: The Landbank guarantee, what happened to it?

**MR MARTINUS DE JONGE**: I am not sure but at that stage there was only was given for six months to help us through that period. So I left before that actually expired. So I  
20 am not, I don't have information on what happened with that later on. But with the cash they are making now I don't think that will be a problem, they are making good profits now.

**MS GILL MARCUS**: But the question, I think that when you do present it whether this was ever needed to be utilised and whether it was, whether it is now no longer in place. Did it simply function as a guarantee? Was it ever drawn down and whether it is still in

place?

**MR MARTINUS DE JONGE**: No what happened is the guarantee went through to AFGRI and they made 200 million rand available, addition to the 1,2 billion for us because at that stage the creditor was almost 200 million rand and that was at the point that they wanted to liquidate the company, so we had to settle most of that money was utilised to settle the outstanding creditors, the normal operating creditors.

**MS GILL MARCUS**: So the guarantee was in fact drawn to AFGRI.

**MR MARTINUS DE JONGE**: That is right.

**MS GILL MARCUS**: And who provided the cash to meet the creditors.

10 **MR MARTINUS DE JONGE**: That is correct, ja.

**MS GILL MARCUS**: Therefore the question becomes, has this been repaid rather than has it been ...

**MR MARTINUS DE JONGE**: As I say when I left it was not settled yet, but I cant confirm at this stage.

**MS GILL MARCUS**: Okay.

**MR EMMANUEL LEDIGA**: So basically the PIC runs the company? Because they are the major shareholders and the major debt holders also?

20 **MR MARTINUS DE JONGE**: That is correct. According to my knowledge also the PIC are the only Directors also on the company with Mr Serebii as the CEO. That is a independent person.

**MR EMMANUEL LEDIGA**: It will be quite interesting to find out if there are any other companies that are being run that way by the PIC. Do you know of any? Advocate Lubbe?

**ADV JANNIE LUBBE SC**: I cant commit myself to an answer now Mr Commissioner. But we will present evidence on that score.

**MR EMMANUEL LEDIGA**: Okay. Then another question is, when you say the company is doing well now, is it double the size now? It is half of what it was? Is it one third of what it was?

**MR MARTINUS DE JONGE**: See the main reason and all the poultry companies are making good money now because of that, I don't know if I pronounce it right, Lesterilose, that was there last year. The supply of chicken reduced a lot so there is a big demand for chicken at this stage. So it is more the output [indistinct] so that production didn't grow, but the price grow. So they getting more for the chicken at this stage.

10 **ADV JANNIE LUBBE SC**: That is the evidence Mr Commissioner.

**MS GILL MARCUS**: Sorry, just one point just so that I am clear. We had in terms the funding, it was a 1,2 billion and then a 200 million, so the investment in this was 1,4 billion in total, being the 200 guarantee from the Landbank as well as 1,2 billion from the PIC. We have to look at the valuation and what was overpaid because that was the debt. So in essence what it seemed to me and perhaps in your presentation you will then deal with that, is the price was determined by the level of debt rather than what the value of the company was?

**MR MARTINUS DE JONGE**: It would seem like that Mr Commissioner.

**MS GILL MARCUS**: Because it is too coincidental of 1,2 billion and 1,2 billion paid.

20 **MR MARTINUS DE JONGE**: Yes.

**MS GILL MARCUS**: So the valuation was determined by what was owed rather than by what was the value of the company.

**ADV JANNIE LUBBE SC**: Absolutely.

**MS GILL MARCUS**: And then there were in addition the payments of transaction fees of 13 million to an individual who was involved in the company and obviously now we

would also like the ownership structure, because that sounds now it is only the PIC that is through the entities that it represents that is owning this entity. And therefore perhaps in your information what is the level of profitability and the debt service agreements that are in place to ensure that there is return on that investment to the PIC.

**ADV JANNIE LUBBE SC**: Thank you Mr Commissioner, and we will have to recall Mr Rajdhar who was not only the head of unlisted at the time, but also must have intimate knowledge of this transaction as he sat on the Board from, from the date after the investment into this entity.

10 **MS GILL MARCUS**: I also think if we recalling Mr Rajdhar, I'd like to put on the table for him to address the question of the movement of Mr De Jonge, because I think that too – I would like to understand how that is simply implemented, remove you from A to B, no explanations. No nothing, well you are a male of a certain age and males of a certain age must know they are vulnerable. Okay. And they may be vulnerable ...

**ADV JANNIE LUBBE SC**: I am also very sensitive to that but ...

**MS GILL MARCUS**: I understand the sensitivity and we wont go there.

**MR EMMANUEL LEDIGA**: On the Board there were Landbank people, were they there because of that guarantee? That 200 ...

**MR MARTINUS DE JONGE**: No, they also funded. You see they made money  
20 available through AFGRI because there is the structure there, so the operating capital they put in. So based on that agreements that they had, they had ...

**MR EMMANUEL LEDIGA**: Oh I see, I see because of the AFGRI investments. Okay, alright.

**ADV JANNIE LUBBE SC**: Mr Commissioner.

**CHAIRPERSON**: I think, no I think in that circumstance I think it will be helpful when

you do present that we get all of these different pockets of funding, whether it is from the Landbank to AFGRI so that we know in the picture of Daybreak what actual funding was available through what entities and what that total was and the turnaround strategy. And it is most welcome that it is now making a profit, but those debts have to be serviced.

**ADV JANNIE LUBBE SC**: Thank you Mr Commissioner.

**MR EMMANUEL LEDIGA**: Ja, just to check. Those loans that AFGRI had, were they loans with the banks and were they repaid in the end with the PIC money?

**MR MARTINUS DE JONGE**: You see, sorry Commissioner is that the initial transaction  
10 you are talking ...

**MR EMMANUEL LEDIGA**: Ja. Yes.

**MR MARTINUS DE JONGE**: Now the money that went in was to repay that loans on Daybreaks balance sheet to AFGRI. So part of the transactions they just took over the – it is in a way loan accounts that they took over from AFGRI.

**MR EMMANUEL LEDIGA**: Okay, let me – okay so the loans in Daybreak were shareholder loans from AFGRI, is that what you are saying?

**MR MARTINUS DE JONGE**: Ja and there was other facilities also, so I don't – but there was other facilities on the balance sheet that they had to cover.

**MR MARTINUS DE JONGE**: On the balance sheet, but the bulk was AFGRI?

20 **MR MARTINUS DE JONGE**: AFGRI yes.

**MR EMMANUEL LEDIGA**: And then money was raised from the PIC and those loans were repaid?

**MR MARTINUS DE JONGE**: That is correct, ja.

**MR EMMANUEL LEDIGA**: To AFGRI and others?

**MR MARTINUS DE JONGE**: They effectively took the loans over from AFGRI.

**MR EMMANUEL LEDIGA**: Ja, ja.

**MR MARTINUS DE JONGE**: That was part of the transaction.

**MR EMMANUEL LEDIGA**: Yes and the purchase price now, you know the loans and the purchase price basically. Okay, alright.

**ADV JANNIE LUBBE SC**: Thank you Mr Commissioner, that is the business for Wednesday.

**CHAIRPERSON**: Yes, thank you. Your way forward?

**ADV JANNIE LUBBE SC**: We will then reconvene Mr Commissioner Monday at 10:00.

**CHAIRPERSON**: An indication.

10 **MS GILL MARCUS**: Sorry. Well the question for me would be when do we continue with the Daybreak presentation? Is that going to be Monday or are you not ready for that yet?

**ADV JANNIE LUBBE SC**: It cannot be. Mr Commissioner I would like to finalise the investigation that we are busy with before we come back on Daybreak. But it was essential for me to present this evidence so that the matters that must be addressed can come into the open. And those that can shed more light on these matters can then be prepared to come to the Commission.

**CHAIRPERSON**: Mr De Jonge thank you very much. Thank you for your time and thanks for agreeing to come and testify before us.

20 **MR MARTINUS DE JONGE**: Thank you Commissioner.

**CHAIRPERSON**: I don't know if you will be called back, but for now you are excused.

**MR MARTINUS DE JONGE**: Thank you Commissioner.

**CHAIRPERSON**: Thank you and we will adjourn until Monday. What is the date on Monday?

**ADV JANNIE LUBBE SC**: It is the 18<sup>th</sup> of, the 18<sup>th</sup> of ...

**CHAIRPERSON:** The 18<sup>th</sup> of March at 10 o'clock. Thank you.

**INQUIRY ADJOURNS TO 18 MARCH 2019**