Shareholder and Regulatory Concerns Regarding the Financial Affairs of Meikles Limited

The Securities and Exchange Commission of Zimbabwe (SECZ) takes this opportunity to formally engage directly with the investing public following Meikles Limited's interactions with the Zimbabwe Stock Exchange (ZSE) that led to the counter being suspended from and then reinstated to trade on the bourse.

In terms of our legislation, the ZSE is charged with the direct supervision of listed entities. They do this in terms of Rules made in terms of the Securities and Exchange Act (Chapter 24:25). The Commission administers that Act. It is therefore correct to say that the ZSE exercises delegated authority from SECZ. The ZSE is our registrant in terms of the same Act, operating in terms of the provisions thereof. The SECZ is therefore in the process of engaging the ZSE to establish the probity of the manner that the Meilkes Limited matter was handled from the beginning, not just its suspension and reinstatement.

In exercising our over aching mandate as the regulator of capital markets, the SECZ is concerned by the information asymmetry regarding Meikles Limited. Information the Commission deems material in that its disclosure would probably have an impact on the Meikles Limited share price is being withheld from the market. It is the SECZ's duty to ensure that information reasonable investors would want to know before making an investment decision is availed to them. For this reason Meikles Africa is being asked to address the issues raised below thus enabling all shareholders, minorities in particular, and all capital market players to have a better understanding and basis for valuing Meikles Limited.

CONCERNS REGARDING THE FINANCIAL AFFAIRS OF MEIKLES LIMITED

During the course of the last few years there have been events at Meikles Limited that have concerned shareholders. These events emanate from transactions undertaken with Meikles family related companies, a lack of transparency with the investment in Mentor Africa Limited, concerns regarding the accuracy of the value being carried in the financial statements in respect of the funds with the Reserve Bank of Zimbabwe, failure to disclose recent movements of executives causing disruption in day to day management, an ineffective, non-independent Board of Directors and proposal to pay a dividend of $5.1 million out of 31 March 2014 retained earnings. The concerns have come to a head because historical promises and commitment included in statements in Annual Reports have not been honoured and shareholder value continues to diminish.

1. Related Party Transactions

The financial statements for the year ended 31 December 2008 show an impairment for "funds earmarked for future investments" amounting to $17.8 million. These funds were held by Cool Bay Investments (Pvt.) Ltd, a company associated with the Meikles family. The auditors' report makes reference to the provision stating that there was "uncertainty of the carrying value of any investment made from those funds."

Meikles Limited changed its year end to March and the financial statements for the period ended 31 March 2011 reflect a reinstatement of $11.7 million of these funds. There is no reference to the status of the balance of $6.1 million. The financial statements for the year ended 31 March 2012 show the $11.7 million as "funds earmarked for investment-shareholder entities" with a further statement that "the timing of future cash flows arising from this investment is yet to be determined." The financial statements for the year ended 31 March 2013 show the same funds as now being with Gondor Capital Limited with the same statement from 2012 regarding timing of cash flows in respect of investment return. The notes and references are repeated in 2014 financial statements.

Shareholder information in the Annual Reports for 2013 and 2014 show Gondor Capital replacing the Meikles' family investment companies as the family investment vehicle in Meikles Limited, holding 47.42% of the Group. This means that the family shareholder company is holding an investment of Meikles Limited funds of $11.7 million for which there is no certainty on when the investment will generate cash flows and there has not been any reference to the recoverability of the $6.1 million impaired in 2008 and not reinstated. It should be noted that the "funds earmarked for future investment" with Cool Bay go back to financial statements for the year ended 31 March 2005.

Questions arising from the above state of affairs:

i) It has been ten years since the funds originally with Cool Bay and now with Gondor were described as available for investment but nothing has materialised. What is the factual status of the $17.8 million and why isn't it available for the company to utilize in the interest of all shareholders?

ii) How can the funds be described as "shareholder funds" when they are only available to the family shareholder group?

iii) What is the interest rate and what interest has been received in cash since 2005?

iv) On what shareholder approval were the Cool Bay funds transferred to Gondor Capital?

2. Mentor Africa and the Cape Grace Hotel

The following was included in the Chairman's Statement of the 2011 Annual Report:

"With effect from 1 April 2012, the Group will take up shareholding in Mentor Africa Limited (Mentor) and will merge the Cape Grace into Mentor and the funds that were being held by Mentor on behalf of the Cape Grace will be converted into equity in Mentor. This transaction conforms with past communications to shareholders. It is estimated that the Group will have a 35% shareholding in Mentor.

The transaction will allow the Group to unlock further value in its foreign investments by providing access to assets, which have greater growth prospects than the Cape Grace Hotel in isolation. The Cape Grace Hotel is well run and the Group is satisfied with its performance, but it is a mature asset and its prospects for growth are limited and less than those of the Mentor assets.

Mentor has a growing and diversified portfolio of investments in South Africa, including;

• A joint venture with dnata, the fourth largest air service provider in the world with operations in 76 airports in 38 countries and a member of Emirate Group, Wings Inflight Services, an airline catering business which provides in-flight catering services to major international airlines;

• An interest in the market-leading provider in South Africa of energy efficient, low wattage, high output, industrial, retail and commercial fittings and safety approved retro-fit lighting products; and

• Minority interests and new opportunities in the financial services, resources and mining sectors.

Mentor's deal-flow pipeline is strong with good upside potential.

The Board remains confident that the strategic investment in Mentor will produce significant high growth opportunities, similar to those which Meikles Group derived from its previous investment in Rebhold/Mvelaphanda, in the medium to long term."

The 2013 financial statements show the gain in disposal of the Cape Grace Hotel as $1.173 million. The net assets disposed of were $19.644 million so the proceeds were $20.817 million. This amount added to the $6.840 million being held by Mentor (relates to the sale of Mvelaphanda) makes up the carrying value of the Mentor Investment of $27.657 million shown in the balance sheet as the same figure in 2013 and 2014. This is to say Cape Grace with an NAV of $19.644 million, was sold to Mentor for just $20.817 million. If Meikles Limited holds 35% of Mentor then the "equity value" of Mentor should be $79 million. Transparent disclosure would outline what this is.

The Chairman's review in 2013 Annual Report states "the Cape Grace Hotel performed exceptionally well as a result of new operating strategies adopted...." There is also reference to it being named the Best City Hotel in Africa in the Ultra Travel Awards.

The Chairman's statement in the 2014 Annual report made the following comments on Mentor:

"The value of the Group's investment in Mentor has increased by twenty percent expressed in terms of South African Rand, but is static in terms of United States dollars. Mentor and other financiers are involved in negotiations relating to a new project, which is at an advanced stage, but has not yet been consummated. It is expected that this project, if consummated successfully, will have a material impact on forward values of the Mentor Group."

The 2014 financial statements explain why the investment in Mentor is accounted for at cost (and not an associate) and that there was a range of valuations performed by the directors of Mentor and assessed for reasonableness by the directors (of Meikles). "No impairment was identified as at the reporting date."

It is noted that the unaudited financial results for the six months ended 30 September 2014 show the investment in Mentor as unchanged at $27.657 million. There is still no evidence of a dividend being received.

Questions arising from the above chain of events:

i) Which independent valuer carried out the valuation of Mentor?

ii) Why does Meikles not have Board representation in Mentor?

iii) Without Board representation how does Meikles protect its interests in mentor?

iv) The view was that Mentor, with the Cape Grace Hotel would have better growth prospects than the Cape Grace in isolation. What is the actual performance of the Mentor Group, given the positives that were outlined at the time of the investment?

v) Has the performance of the Cape Grace not compensated for the poor performance of the rest of the group?

vi) Why has there been no dividend from Mentor when shareholders were informed that the quality of Mentor's assets would generate high growth opportunities?

vii) If the Cape Grace "performed exceptionally well" in the year that it was disposed of in 2013, why was the amount realised on disposal, being $20.817 million, only $1.173 million more than its equity value?

viii) Which independent service provider carried out valuations and provided financial advice for the Mentor transaction and why have shareholders not been availed of this information?

ix) Is it not more than coincidence that the carrying value, being cost, has remained static since investment?

x) What initiatives are being taken by the Board of Mentor to hedge the devaluation of the South African Rand against the USD?

xi) Surely it would be good accounting practice for the board of Meikles to present information that would be disclosed if Mentor was accounted for as an associate, given the level of investment, being $27 million, (35% of Mentor) and the hype that went with the transaction involving the Cape Grace Hotel?

What is the status of the project that, if consummated, would have a material impact on the forward values of the Mentor Group, referred to in the 2014 Annual Report?

3. Failure to disclose amount owed to the RBZ

The chairman's statement in the 2014 Annual report states that; "funds on deposit with the Reserve bank of Zimbabwe increased to US$90.8 million as a result of interest negotiations. We are in receipt of Treasury Bills of US$49.6 million and have been advised by the relevant authorities that upon completion of their required processes, Treasury Bills of similar terms to those already in possession will be issued for the balance. The Company has been testing its ability to market the bills in the local market. Efforts to date have focused largely on the local banks. Foreign banks operating in Zimbabwe have failed so far to demonstrate an appetite for the Bills." The 2014 financial statement show net interest earned on funds held at the RBZ as $40.9 million "as a result of interest rate negotiation."

The unaudited financial results for the six months ended 30 September 2014 show balances with the Reserve Bank of Zimbabwe as $43.738 million and Treasury Bills of $38.431 million making a total of $82.169 million compared to balances at March 2014 of $90.8 million, a decrease in value of $8.63 million.

Meikles Limited failed to disclose material changes to the financial statements for the year ended 31 March 2014. The company overstated the amount it is owed by the RBZ in that it did not advise investors of the new amount that was agreed with the RBZ and its impact on the Meikles Financial Statements. The SECZ received a written submission from the RBZ of the asset's carrying amount, which information is material and price sensitive. The information would have resulted in a significant reduction of the Meikles' 2014 profit.

Questions on the Reserve Bank Funds and Treasury Bills:

i)The interest rates negotiated must have been significantly higher than those previously recorded, but surely they are not sustainable to project the values now being presented, therefore misleading shareholders on the balance sheet and income statement? Is this not evident from the decrease in value of the six months period ended September 2014?

ii)What is the status of the conversion of remaining funds with the RBZ into Treasury Bills?

iii)Surely the local market will not have the capacity to absorb the level of value so shouldn't shareholders expect a significant impairment for the year ending March 2015?

iv)What are current rates of interest with the RBZ funds and the Treasury Bills? Is there not an issue of the "induplum rule" on interest accrued?

v)What success, if any is being returned from marketing the Bills, locally and internationally?

Shouldn't the Board of Meikles be more circumspect in presenting realistic values in respect of these assets that can be backed by normal market forces rather than by taking artificial gains and then having to impair them later?

4. Leadership of the Group

The market is abuzz with information regarding the recent suspension or termination of services of key executives, including directors, in the Group. The extent of the exits must question how the Group is being managed and how Corporate Governance principles are being maintained. The current situation indicates a dysfunctional Board and a lack of independence in leadership as Mr. John Moxon, the major shareholder representative and Executive Chairman, appears to have taken unilateral control of the group. It is clear that the rights of the other shareholders are being prejudiced and a risk that shareholder value will continue to be lost.

The ZSE Listings requirements mandates listed companies to notify the ZSE of any changes to the composition of a listed company's board of directors and executive team. The Chairman of the Meikles Limited dismissed a director, Mr. Mark Wood on 30 January 2015 and failed to inform the ZSE as required by section 3.68 (ii) (b) of the Listings Rules. Another executive director, Mr. Onias Makamba, the Financial Director, is believed to be on a long suspension leaving the board with three directors of which one is non-executive.

Questions on management and Board structures

i) What is the background to the upheaval of executive positions at a management and Board level?

ii) What is the timing to regularize the current unsatisfactory state of affairs to comply with Corporate Governance and appoint independent directors? To what extent will other major shareholders be engaged to assist with the process?

5. Proposal to pay a dividend of $5,1 million

The Chairman's statement attached to the unaudited financial results for the six months period ended 30 September 2014 states that "the Board will declare a dividend of 2 cents per share amounting to $5.1 million out of the 31 March 2014 retained earnings. The formal declaration of the dividend is expected to be announced during December 2014." This statement comes on the back of a loss of $2.8 million for the six months and a loss $3.7 million for the year ended 31 March 2014 when the investment income of $40.9 million relating to the RBZ funds is excluded. Good accounting practice highlights that dividends should only be paid out of current profits and if cash flow permits. Neither of these situations exists and it's clear that the motivation is to compensate the major shareholder to the extent of $2.4 million.

Question on the proposed dividend

On what basis can the Board of Meikles Limited argue that a dividend declaration of $5.1 million is in the interests of the Group.

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