GEN – General – AYO Technology Solutions Limited

Censure imposed by the JSE on AYO Technology Solutions Limited ("**Company**" or "**AYO**")

The JSE hereby informs stakeholders of the following findings in respect of the Company:

**BACKGROUND**

1. On 8 April 2019, two former executives of AYO made statements under oath at the PIC Commission of Inquiry that executives of the Company were instructed to amend numbers contained in AYO's unaudited interim results for the six months ended 28 February 2018 to reflect an inflated number to the market. In light of the uncertainty around AYO's 2018 unaudited interim results and the accuracy of the financial information, in April 2019 the JSE instructed AYO through its auditor, BDO Cape Incorporated ("**BDO**") to conduct an Agreed-Upon Procedures engagement and subsequently an audit of AYO's previously published unaudited interim financial statements for the six months ended 28 February 2018 and 2019 ("**unaudited interim results**").

2. Because of the engagement, management identified apparent shortcomings in AYO, including not having a suitable amount of qualified staff in the finance team and inadequate financial controls in place to ensure the accuracy and completeness of financial information disseminated to the market.

3. Subsequent to the aforementioned instructions by the JSE, AYO published the following financial information to the market:

   i. the audited interim financial statements for the six months ended 28 February 2018 published on 27 March 2020;
   ii. the audited interim financial statements for the six months ended 28 February 2019 published on 8 April 2020;
   iii. the reviewed preliminary results for the year ended 31 August 2019 published on 20 December 2019 ("**2019 reviewed preliminary results**");
   iv. the audited annual financial statements for the year ended 31 August 2019 ("**2019 AFS**") and a change statement published on 31 January 2020; and
   v. supplementary information to the audited annual financial statements for the year ended August 2019 published on 11 March 2020.

4. Each of the financial statements published by AYO as referred to above contained adjustments and corrections to the previously published results and were restated to correct numerous material errors and omissions therein in accordance with International Financial Reporting Standards ("**IFRS**").

**ADJUSTMENTS AND CORRECTIONS TO FINANCIAL STATEMENTS**

2018 unaudited interim results

5. The errors and misstatements in the 2018 unaudited interim results were quantitatively and qualitatively material, resulting in AYO having to restate its 2018 interim cost of sales, gross profit, operating expenses, investment revenue, profit after tax, inventories, deferred tax, provisions and other accounts of significance to AYO's business and operations by as much as 50% in some instances, including a 4% decrease in gross profits. Whilst the 2018 interim profit after tax decreased by 19%, the 2018 interim earnings per share decreased by 13% as a result of the corrections. Further, in correcting these errors, goodwill decreased by 11%, inventories decreased by 69%, and provision liabilities increased by 61%.

6. The errors arose as a result of AYO's failure to subject the 2018 interim accounts and underlying documents to a critical and thorough review, resulting in numerous line items in the statements of financial position, comprehensive income and cash flows containing material errors. At the time, the Company did not have robust financial reporting procedures and processes to avoid these errors, resulting in the dissemination of financial information that did not comply with IFRS. Further, the Company did not appear to have sufficient staff in the finance team, as well as staff possessing sufficient historical and technical knowledge of the Company in order to produce financial information that would provide a fair presentation of AYO's results to the market since its listing on the JSE in 2017.

7. Furthermore, AYO notified the JSE of additional errors identified and omitted from the supplementary information note contained in the 2018 audited interim results published on 27 March 2020, although these omissions were not deemed material by AYO.

2019 unaudited interim results

8. Similarly, deficiencies identified in AYO's 2018 interim financial reporting processes and controls applied equally to the 2019 unaudited interim results, mainly as a result of incorrect application of judgement, IFRS errors, inadequate financial reporting controls and review processes contributed to misstatements in the interim financial statements disseminated to the market.

9. The errors and misstatements in the 2019 unaudited interim results were quantitatively and qualitatively material, resulting in restatements to other operating gains, other operating expenses increasing by 23%, and the 2019 interim headline earnings per share decreased by 50%. Further, in correcting these errors and incorrect classifications, intangible assets decreased by 40%, inventories increased by 41%, receivables decreased by 24% and payables increased by 23%.

10. Furthermore, AYO notified the JSE of additional errors identified and omitted from the supplementary information note disclosed in the audited 2019 interims published on 8 April 2020, although the omissions were not deemed material by AYO.

2019 reviewed preliminary results

11. AYO published a change statement on 31 January 2020, highlighting to the market significant changes made to its previously published reviewed preliminary results for the year ended 31 August 2019. The numerous changes from the 2019 reviewed preliminary results to the audited 2019 AFS were caused by adjustments centered around financial instruments and complex acquisitions, incorrect classification of items as well as the incorrect calculation of headline earnings per share as required by the SAICA circular. Furthermore, AYO incorrectly included non-cash items in the statement of cash flows, which had to be removed and adjusted for.

12. In correcting these errors, AYO's other operating gains and expenses drastically increased by 133% and 23% respectively, thereby affecting profits and decreasing the initially published reviewed earnings per share and headline earnings per share by 19% respectively. The balance sheet position underwent significant changes between the review and audit, reflecting a decrease in goodwill of 29%, reserves of 43% and contingent consideration liabilities of 53%, amongst other items. The Company incorrectly included non-cash items in the cash flow statement and had to correct the cash flows relating to operating, investing and financing activities.

Audited 2019 AFS

13. On 31 January 2020, AYO published its integrated annual report, audited 2019 AFS and notice of annual general meeting. However, the Company omitted numerous disclosure notes when publishing these audited 2019 AFS. The audit report on which these 2019 AFS was based was withdrawn, and the auditor reissued their report related thereto. AYO published and distributed revised results to shareholders inclusive of the updated disclosure notes on 16 March 2020 as supplementary information.

**JSE'S FINDINGS AND DECISION TO CENSURE AYO**

14. The events that unfolded from early 2019 to date, the contents of BDO's report on the Agreed-Upon Procedures conducted in 2019, the outcome of subsequent 2018 and 2019 interim audits as instructed by the JSE and subsequent financial statements and announcements published by AYO to the market supported the JSE's serious concerns about the reliability and integrity of AYO's financial information previously disseminated to the market.

15. AYO's previously published financial information did not comply with IFRS and was incorrect, false and misleading in material aspects and this incorrect information was disseminated to shareholders, the JSE and the investing public.

16. Accordingly, the JSE found that AYO failed to comply with the following provisions of the JSE Listings Requirements:
    i. section 8.57(a) as previously published unaudited 2018 and 2019 interim results did not comply with the requirements of IFRS and were restated due to numerous adjustments and material errors contained therein;
    ii. section 8.57(b) as the 2019 reviewed preliminary results did not comply with IFRS in terms of classification, measurement and presentation of specific items, and contained numerous material errors which had to be corrected; and
    iii. General Principle (v) for failing to exercise the highest standards of care when disseminating financial information to the market in that:
        - the Company published the unaudited 2018 and 2019 interim results to the market despite knowledge of deficient internal and financial controls, insufficient staff in the finance team as well as staff with insufficient historical and technical knowledge of the Company which led to the numerous and material corrections to the 2018 and 2019 interim results;
        - additional errors in the Company's 2018 and 2019 audited interim results were identified post the audit and therefore not included in the audited 2018 and 2019 interim results published to the market; and
        - the Company published the audited 2019 AFS and omitted therein several disclosure notes resulting in the Company having to publish a supplement to the audited 2019 AFS and the auditor having to withdraw and re-issue the audit report in respect of the 2019 AFS.

    AYO assisted the JSE in its investigation and admitted its failure to comply with these provisions of the Listings Requirements.

17. The accuracy and reliability of financial information published by companies are of critical importance in ensuring a fair, efficient and transparent market. The provisions of the Listings Requirements, which impose various important obligations on listed companies in respect of the disclosure of financial information, contributes to the integrity of the market and promotes investor confidence. The Company and its directors are therefore obliged to ensure that all financial information and reports that are published are, in all material aspects, accurate and correct. In addition, the investing public relies on a company's published financial information to make important investment decisions.

18. For these reasons and with reference to the JSE's findings of breach, the JSE has decided to impose a public censure and a fine of R6 500 000 (six million five hundred thousand) on AYO as a result of its failure to comply with important provisions of the Listings Requirements.

19. The fine imposed against AYO will be appropriated in settlement of any future costs incurred by the JSE which may arise through the enforcement of the provisions of the Listings Requirements as contemplated in section 11(4) of the Financial Markets Act, 19 of 2012 read with section 1.25 of the Listings Requirements.

**OTHER PARTIES REGULATED BY THE JSE**

20. It is important to note the provisions of section 11(5) of the Financial Markets Act, which stipulates that the Listings Requirements are binding on companies and their directors. The JSE is therefore duty bound to properly investigate all potential breaches of the Listings Requirements by companies and their directors and to take the necessary and appropriate action if the Company and/or its directors failed to comply with the provisions of the Listings Requirements.

21. This concludes the JSE's process in respect of the Company as a juristic person. An investigation into the conduct of current and former directors that presided at the Company during the periods in question and who are bound by the Listings Requirements is ongoing.

27 August 2020