



14 September 2007
Ref: TW/jt

The Company Secretary/Financial Director

Dear Sir/Madam

PRESENTATION OF FINANCIAL RESULTS

The JSE Limited (JSE) wishes to remind issuers that in terms of paragraph 8.57 of the JSE Listings Requirements, interim, preliminary, provisional and abridged reports (period results reports) must be prepared in accordance with, and containing the information required by, International Financial Reporting Standards (IFRS) on Interim Financial Reporting (ie IAS 34).

In order to confirm compliance with this Listings Requirement, we ask issuers to include a statement confirming that the period results reports have been prepared in terms of IAS 34. This statement would be in addition to the normal wording which confirms that the accounting policies are in terms of IFRS and are consistent with those of the previous annual financial statements.

The GAAP Monitoring Panel (GMP), in recent cases referred to it has identified serious deficiencies with respect to compliance with IAS 34, as well as issues relating to accounting for business combinations. These matters are detailed in the Annexure to this letter. We would urge all issuers to carefully consider the content of their period results reports in light of paragraph 8.57 of the Listings Requirements and these GMP findings in order to avoid contravening the Listings Requirements.

Finally, in the context of period results reports which have been reviewed or audited we refer you to the 2004 SAICA guide. Although the references in this guide are out of date, the principle remains the same, namely the period results report should actually have an auditors report separate from the report on the underlying detailed annual financial statements.

Yours faithfully

**D M DOEL: GENERAL MANAGER
ISSUER SERVICES**

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LV Parsons, JH Burke, G Rothschild **Non-Executive Directors:**
HJ Borkum (Chairman), AD Botha, MR Johnston, ST Koseff,
W Luhabe, A Mazwai, NS Nematswerani, N Payne, G Serobe
Alternate Director: DM Lawrence **Company Secretary:**
GC Clarke

August 2006

Annexure

This annexure does not deal with all the requirements of the applicable standards. Its purpose is to set out deficiencies in financial reporting identified by the GMP in recent cases referred to it.

1. IAS 34 : Interim Financial Reporting

- 1.1 It should be noted that IAS 34 applies to half-yearly reports AND any preliminary, provisional or abridged reports issued by a company.
- 1.2 The minimum disclosure required includes specific disclosures relating to segment reporting and business combinations.
- 1.3 IAS 34, para 16, requires, *inter alia*, the following minimum disclosure requirements:

Segment information, including:

- 1.3.1 Revenues from external customers.
- 1.3.2 Inter-segment revenues.
- 1.3.3 Segment profit or loss.

Business combinations, including:

- 1.3.4 The effective changes in the composition of the group during the period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings and discontinued operations.
- 1.3.5 Acquisition date of business combinations.
- 1.3.6 Percentage of voting equity instruments acquired.
- 1.3.7 Cost of acquisitions.
- 1.3.8 If equity is issued (or issuable) in payment for an acquisition, disclosure is required of the number of equity instruments issued or issuable and the fair value of those instruments/basis for determining fair value.
- 1.3.9 The amount of the acquiree's profit or loss since acquisition date included within group profit for the period.
- 1.3.10 The revenue and results of the group for the period as if the acquisition dates had been at the beginning of the period.
- 1.3.11 Any gain/loss recognised in reporting period relating to the business combinations effected in the period.

Basic and diluted earnings per share

- 1.4 Diluted earnings per share data must include the effects of all dilutive potential ordinary shares. Contingently issuable shares should be included in the calculation of diluted earnings per share. This includes share issues which are subject to the fulfilment of conditions which had not yet been fulfilled at the reporting date. If there is a dispute regarding whether there are further shares to be issued (e.g. a dispute whether an earn-out target triggering share issue has been met), that fact should be

disclosed and appropriate treatment and disclosure in terms of IAS 37 and Schedule 4 to the Companies Act is required. Contingently issuable shares are only treated as dilutive if their issue would have a negative effect on EPS.

2. IFRS 3 : Business Combinations / IAS 27 : Consolidated Financial Statements

- 2.1 The income and expenses of a subsidiary are to be included in the consolidated financial statements from the “acquisition date” as defined in IFRS 3. Income and expenses of a subsidiary are to be excluded from the consolidated financial statements from the date upon which the holding company ceases to control the subsidiary.
- 2.2 In terms of IFRS 3, the acquisition date is the date upon which the company “effectively obtains control of the acquiree” and control is the “power to govern the financial and operating policies”.
- 2.3 The date upon which the company effectively obtains control must be considered, having regard to the financial substance and economic reality, not the legal form in the acquisition agreement.
- 2.4 The effective date set in an agreement does not determine the acquisition (or sale) date for accounting purposes.
- 2.5 Some acquisition agreements reflect effective dates which are many months before the agreement date and/or the date upon which the acquirer effectively obtained control of the acquiree.
- 2.6 In those circumstances, the financial substance and economic reality is that the profits earned up to the acquisition date are included within the purchase price (and represented by increased net asset value as at the acquisition date). Such a transaction should be accounted for based on the acquisition date as defined in IFRS 3 and not the contractual effective date. Appropriate accounting adjustments are required in order to eliminate from the group profits the profits of the acquiree between the contractual effective date and the acquisition date.
- 2.7 The acquirer must account for the results of an acquired business or subsidiary based on the date upon which the power to govern was obtained in substance and reality (and not legal form). This principle applies equally to the seller, which should account for the results up to the date that such control was transferred to the buyer, in substance and reality, i.e. when the seller “ceases to control” as referred to in IAS 27.
- 2.8 The consideration as to whether, in substance and reality, the power to govern had been obtained (or given up) would include, *inter alia*, an assessment of the *de facto* ability to make policy decisions in relation to the acquiree.
- 2.9 A measure of this power is to consider the date from which the acquirer had actual management control of the acquiree.
- 2.10 It follows that the allocation of the purchase price to the identified assets of the acquiree should not be based on the fair values as at the legal effective date in

the contract, but on the acquisition date, which must be determined in compliance with IFRS 3.

- 2.11 In circumstances where a take-over cannot legally be implemented until regulatory approvals have been obtained, it would be unlikely that control in substance and reality, could have been obtained by the acquirer prior to this approval.
- 2.12 The following counter arguments put forward were considered and rejected by the GMP:
 - 2.12.1 the fact that the acquirer would be in control of the target at the end of its next reporting period is entirely irrelevant to the assessment;
 - 2.12.2 the fact that the acquirer would control the accounting policies of target for the historic reporting period is a irrelevant to the assessment. The selection of accounting policies to utilise in reporting the historic period, has no bearing on the date upon which the acquirer effectively obtained control of the target;
 - 2.12.3 a reference was made to “guidance on implementation and illustrative examples”. The only matter of relevance is the application supplement, being Appendix “B” to IFRS 3. This does not provide any indication that control for accounting purposes is based on an analysis of contractual rights and legal form. The question of effective control contemplated by IFRS 3 requires an analysis of the substance and financial reality which prevails over the legal form;
 - 2.12.4 although contractually, certain rights may have passed to the acquirer on the effective date set in the agreement, this is clearly not the date from which the acquirer effectively obtains control of the target for the purposes of IFRS 3; and
 - 2.12.5 the fact that there may have been no significant changes in the policies of the target during the reporting period, that the core management would remain the same and that the businesses were principally the same, are all entirely irrelevant considerations in assessing the acquisition date for the purposes of IFRS 3.