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Zondo Commission – Lynne Brown a major player in Denel’s ill-advised moves

The board of directors appointed at state-owned arms company Denel in 2015 were compromised going into a deal with VR Laser to establish the business’s controversial Denel Asia component. Not only did they embark on this without sufficiently researching market appetite for this new entity, but a consequence of the deal is that Denel lost a lot of money in the process, while VR Laser was the main beneficiary.

Former Denel board chair Martie Janse van Rensburg told the commission of inquiry into state capture on Tuesday that former public enterprises minister Lynne Brown made a grave mistake by rotating the effective board that Janse van Rensburg chaired from 2010 until 2015. The new board did not have the required skills set for taking Denel forward, particularly in the key area of financial risk management. Brown’s oversight of the arms company, which falls under the Department of Public Enterprises (DPE), during her tenure from 2014 until last year, is under the spotlight at the inquiry.

Denel Asia is one of the sticky points of her legacy at Denel. The DPE has launched a forensic investigation to look into its feasibility and the rationale behind Denel entering into it. Janse van Rensburg told the inquiry that not only was Denel not in a good financial space to invest in a contract of this magnitude, but its chosen partner in the deal, Gupta-owned VR Laser, did not have a footprint in India, which made the venture a curious choice. Former president Jacob Zuma’s son Duduzane is also a shareholder in VR Laser.

Previous testimony by current DPE minister Pravin Gordhan is that the South African government is now stuck with Denel Asia, due to legal bureaucracy and the near impossible task of deregistering it on the Hong Kong stock market.

Janse van Rensburg explained that Denel’s position in the agreed structure was that it would be represented under the Denel Asia banner, with the Indian state representation getting a majority shareholding out of the deal. It was also subject to an agreement on offsets that would be established to benefit the local economy through small businesses in India. So in essence, Denel South Africa would profit if VR Laser profited, and even then it would be on a small scale.

Current board chair Monhla Hlahla briefed the parliamentary committee into public enterprises at the end of last year on the progress of an investigation into the establishment of Denel Asia. The actual monetary losses incurred by Denel will be known at the completion of the forensic report.

Janse van Rensburg’s evidence is that venturing into Asia was not part of the long-term strategic objectives of Denel that had been set out by the board she had chaired. It did not make reasonable sense to go into such a move as for some years Denel was on the path of advancing a turnaround strategy that seemed to show success according to the parastatal’s financials. Brown, in fact, had praised the board’s work in her 2015 budget vote speech in Parliament, noting its successful trajectory: “They [board] handed over a company that is truly on a path to positive sustainability. I commend them for their professionalism and ensuring the handover report was of such a quality that it will be a critical guide to the new board.”

The testimony of Kgathatso Tlhakudi, a deputy director-general at the DPE, on Monday was that despite Brown's praises for the old board, she went ahead and approved the new one without following common practice long instilled in the DPE. While the department's executive team was in the process of putting together a list of recommended individuals for the board, Brown had already submitted her preferred list to Cabinet, months before the official rotation of the board of that time.

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