Provisional reviewed condensed consolidated results

for the year ended 31 July 2019

About EOH

EOH is one of the largest technology services companies in Africa and has a wide range of solutions in Industry Consulting, IT Services, Software, Industrial Technologies and Business Process Outsourcing.

The Group continues to be an undisputed market leader in its core ICT businesses which operates principally under the iOCO brand name. The nature of this business is systemic to both the public and private sector and is an integral technology partner for a number of South Africa's leading JSE-listed, blue-chip companies as well as key metros and government departments.

The Group's 10 500 employees deliver services to over 5 000 enterprise customers across all major industries throughout South Africa, Africa, Europe and the Middle East.

As a proudly South African business, EOH is committed to sustainable transformation, making a positive, meaningful contribution to society, and is a Level 1 Broad-based Black Economic Empowerment ('BBBEE') contributor.

The EOH Purpose

To provide the **technology, knowledge, skills and organisational ability** critical to the development and growth of the markets we serve.

To be an **ethical and relevant force for good and to play a positive role** in society, beyond normal business practice.

Commentary

"The past 12 months have been very difficult for EOH. We have spent extensive time focusing on cleaning up the business both from a governance and financial perspective as well as understanding the Group's strategic capabilities. I have been impressed by the spirit of my colleagues who have worked tirelessly during this challenging period. While there is much still to do, the path is much clearer. In the short term we will focus on continuing to deleverage our balance sheet while implementing governance changes and over the longer term we remain steadfast in a vision of a more synergised and focused offering that is well positioned to take advantage of the next wave of change in the ICT industry." Stephen van Coller, CEO.

SALIENT FEATURES

- Enhanced King IV™* compliant Board and new executive leadership.
- Strategic focus defined for short term. Further refinement and assessment of portfolio ongoing.
- Embarked upon a fit-for-purpose capital structure.
- Progress made towards reducing leverage.
- Key financial indicators:
  - Continuing revenue – R11 791 million.
  - Normalised EBITDA – R792 million.
  - Cash of R1 049 million.
  - Net asset value of R1 957 million.

OPERATIONAL OVERVIEW

The year under review has been one of the most challenging periods in the history of EOH. Three main themes have prevailed:

- Rebuilding credibility through establishing robust governance.
- Creating a fit-for-purpose capital structure.
- Creating more transparency on the business and financials.

Enhanced governance framework

With Microsoft announcing its cancellation of the EOH Channel Partner Agreement and the subsequent ENSafrica investigation which uncovered R1,2 billion of suspicious transactions, management's efforts have been focused on ensuring the right leadership and governance structures are in place and that people are held accountable for what has transpired.

The ENSafrica team has made significant progress on the investigation. They have substantially completed their investigation into the R1,2 billion identified suspicious transactions.

This amount has since been modified to R935 million and includes transactions with no evidence of contracting or work done, valued at R665 million, loans written off of R90 million and overbilling valued at approximately R180 million. EOH has blacklisted and suspended payments to 50 enterprise development partners who were implicated in this activity. Some of these partners have initiated legal challenges against the Company, however, EOH will robustly oppose legal challenges brought by such parties.

The ENSafrica investigation team have also been able to confirm the key modus operandi that was utilised by the main perpetrators to commit wrongdoing at EOH which involved business partners and intermediaries.

The further investigation has confirmed that the main perpetrators of wrongdoing remain confined primarily to a small group of individuals in the public sector team. Apart from this type of wrongdoing, the investigation has also identified various opportunistic incidents of fraud and theft to the prejudice of EOH. This has resulted in the company initiating disciplinary measures which has led to the termination of employment relationships with a number of individuals.

Based on further information identified from ongoing whistle-blower reports and the ongoing investigation, the ENSafrica team have assisted EOH in making further reports to the authorities in line with our statutory reporting obligations. We have provided extensive information to the Hawks and the FIC and we are supporting and cooperating with the authorities. It is important to emphasise that EOH is actively pursuing criminal charges as a complainant against various individuals implicated in wrongdoing. The investigation team is working closely with the authorities to ensure that they are able to identify illicit money flows. EOH has initiated legal processes to recover losses caused by the perpetrators of wrongdoing.

Extensive work has already been conducted to simplify the corporate structure, implement robust risk management and mitigation initiatives, increase transparency, accountability and reporting.

A bid governance process framework has been implemented which aims to promote ethical business practices (commission payments, gifts or any other incentives as well as the use of sales agents or middlemen are prohibited when bidding for contracts for example) and includes:

- Bid templates, controls, limits and mandates.
- Review, monitoring and independent oversight.
- Supplier and customer (enhanced) due diligence to the extent necessary.

A Gift Policy as well as a Declaration of Interest Policy have been introduced. Furthermore, in order for any employee to receive a commission or bonus or other incentive, the respective employee will be required to sign an anti-corruption warranty prior to such payment or award. The warranty will acknowledge the right of EOH to claw back any commissions or bonus if an employee has been identified to have contravened any policies at any time in the past or future relating to such payment.

Employees are required to attend mandatory training on the newly implemented Group governance, risk and compliance processes.

In addition to addressing the findings of the ENSAfrica investigation, the Company is focused on removing any culture of hierarchy and fear which dissuades employees from speaking up and voicing important issues related to the business.

Skilled and experienced executives in place to drive change

The EOH Holdings Limited ('the Group') leadership team has been reconstituted and bolstered with skilled and experienced executives appointed to drive change. The process of recruiting additional operational talent is ongoing.

The new executive team comprises:

- Stephen van Coller, Group Chief Executive (start date 3 September 2018).
- Megan Pydigadu, Chief Financial Officer (start date 15 January 2019).
- Lufuno Nevhutalu, Executive Head for Public Sector in the ICT business (start date 15 March 2019).
- Fatima Newman, Group Chief Commercial Officer (start date 8 April 2019).

In addition, the Board of EOH has been enhanced by the appointment of a new Group chairman and three independent non-executive directors:

- Dr Xolani Mkhwanazi, Chairman (appointed 5 June 2019).
- Dr Anushka Bogdanov (appointed 20 June 2019).
- Mr Andrew Mthembu, Lead independent non-executive director (appointed 20 June 2019).
- Mr Mike Bosman (appointed 20 June 2019).

The Group's Board is now aligned with King IV principles to support independence and governance. Additionally, the Company has retained leading talent in the technology industry who are driven to provide globally best-in-breed technology platforms and services.

A fit-for-purpose capital structure

The Group has historically raised the vast majority of its funding centrally, with the funding largely being used to drive the acquisition strategy. The repayment profile of the historic debt has not mirrored the cash-generation profile of the acquired businesses and as a result has placed strain on the Group. EOH is largely a service business with a light balance sheet that is unable to carry a large debt burden. Consequently, a deleveraging plan has been put in place to reduce the Group's debt through two primary focus areas:

- **Sale of non-core assets and portions of businesses to strategic partners**
  At the half year, a target of R1 billion of expected proceeds was set for the next 12 months. The Group has made good progress towards this target having already realised approximately R523 million in sales in the 2019 financial year. The most significant of these being the sale of 70% of CCS to a strategic partner, RIB, for a consideration of R444 million.

- **Building a more appropriate working capital structure**
  Historically there has been a lack of focus on working capital management with large tranches of cash tied up in debtors. At the half year a target was set to significantly reduce this balance. By 31 July 2019, the trade receivable balance decreased from R4,1 billion to R3,4 billion (before adjusting for current assets held for sale) with over R400 million realised from greater than 90 days at 31 January 2019.

At 31 July 2019 the Group was able to repay its bridge facility of R250 million taken out during the year and the debt balance decreased from R3,4 billion at 31 July 2018 to R3,0 billion at 31 July 2019.

Concerted attention has been paid to driving a more efficient approach to costs the effects of which will only be observed in the 2020 financial year. We continue to explore opportunities for cost management in order to settle on the appropriate cost base for the business.

Business Transparency

The Group has historically pursued an aggressive growth strategy underpinned by acquisitive growth and revenue and profitability being achieved with little regard or focus on the balance sheet. As a result a detailed review of the balance sheet commenced at the half year and continued into year end. The net asset value of the balance sheet reduced from R8.1 billion as previously reported at 31 July 2018 to c. R2,0 billion at 31 July 2019. This decrease included a restatement of the prior period.

The major focus areas include:

- **Reassessment of the goodwill balance – impairment of R1 855 million**
  Goodwill balances were reassessed in line with the strategy going forward and the performance of the underlying businesses to which the goodwill relates. Cash-generating units ('CGU') were also reassessed. A number of negative economic and operational events occured during the year ended 31 July 2019, which had a significant negative impact on certain underlying businesses of the Group. EOH has also gone through a review of its strategy impacting CGU allocations, this combined with the sale and discontinuation of non-core business activities has added to the substantial impact on the carrying value of goodwill. In total, R613 million was impaired in iOCO ('ICT') largely as a result of margin pressure and underperformance in certain of the businesses. The impact of the Microsoft licence cancellation also had a direct impact on trading and the carrying value of the goodwill in certain underlying businesses. In addition, R1 242 million goodwill was impaired relating to the NEXTEC business. These businesses are largely dependent on infrastructure spend and saw delays in projects starting and in project awards.

- **Impairment of equity-accounted investments – R268 million impairment**
  These investments are seen as non-core to the Group due to being subscale and geographically dispersed. EOH has been exiting these businesses during the year and subsequent to year end has exited the majority of them.

- **Write off of intangible assets – R520 million**
  Intangible assets have historically been recognised relating to internally generated software and development of intangibles as part of the implementation of ERP projects.

- **Write off of inventory balances related to purchase of licences – R113 million**
  Historically OEM licences were capitalised on the balance sheet when there were contractual requirements to buy a certain minimum level of licences with no end customer in mind.
- **Write off of WIP, trade receivables and previously recognised revenue on contracts – R754 million**
  Write offs relate to WIP recognised on projects that is unrecoverable and revenue recognition practices, where there were no valid contracts or other binding agreements.
- **Impairment of loan to GCT – R414 million**
  R424 million was recognised as a loan receivable on the balance sheet from the unwind of the GCT transactions at 31 July 2018. Various events of default have occurred on the loan resulting in a R414 million impairment. The Group continues to pursue legal avenues to collect this debt.
- **Impairment of loans and investment in TTCS – R541 million**
  TTCS was a 49% investment into a largely Zimbabwean ERP implementation partner and had a value of R962 million at 31 July 2018. Altogether R541 million was taken as an impairment to the prior year due to impairment indicators and events of default existing at 31 July 2018. The investment in TTCS has subsequently been sold for USD1 with one suspensive condition concluded post year end. At year end the investment was an asset held for sale.
- **Impairment of ED loans – R92 million**
  The impairment of Enterprise Development (ED) loans relates to loans lent to ED partners with no possibility of recoverability.

Certain of the above adjustments have been re-classified to the prior years and these have been detailed in note 6.

STRATEGY

A significant amount of time has been spent refining and revising the strategy for EOH to ensure that the Group is well positioned to take advantage of the next wave of South Africa's changing ICT industry while at the same time ensuring the business is stabilised after the events of the past year.

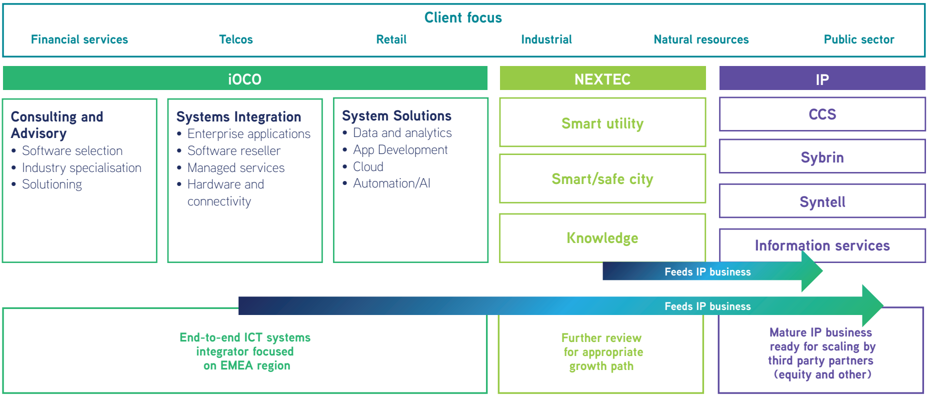
A major focus of the strategic review included a critical analysis of the portfolio; both in terms of refining the Group's focus and clarifying drivers of value over the longer term.

The initial phase of the portfolio review showcased, at the half year, a more streamlined business comprising three major pillars with clearer alignment of focus and groupings of value:

- An ICT business focused on the traditional technology system integration.
- The NEXTEC grouping of a variety of businesses at various stages of incubation for growth and scaling.
- A group of high potential IP companies with scaled technology, ready to be taken to market with partners.

This was accompanied by a significant scaling back of our international operations; selling those businesses where we had limited competitive advantage or scale (e.g. international SAP operations) and integrating high potential businesses back into the major pillars as described above.

A further indepth review of the Group's capabilities has led to further evolution and clarification of the business model.



iOCO (ICT)

The ICT business has been successfully rebranded as iOCO. The following businesses have been launched under the iOCO umbrella and form the core of the business:

- Consulting and advisory business to support clients through the journey of digital transformation; demystify choices and facilitate the design of custom solutions for client needs.
- The traditional ICT business comprising enterprise applications and systems integration; hardware and network solutions businesses; software reselling supported by an extensive managed services offering.
- The next evolution of the systems integration business offering extensive application development; data and analytics intelligence, and digital automation of industries coupled with cloud advisory and implementation.

NEXTEC

- The collection of NEXTEC businesses include a wide range of businesses at various stages of maturity covering business process outsourcing, through to ioT devices and digitisation of engineering and construction businesses. This portfolio requires further scrutiny to determine the appropriate growth path and will result in a significantly smaller and more focused NEXTEC:
  - o The business process outsourcing is being assessed in terms of the ability to scale the IP.
  - o The engineering and construction businesses are challenged by the business and the Group's capital structure.

IP

- The IP portfolio comprises a series of companies which are ready for the next stage of scaling:
  - The recent sale of CCS to RIB represents the future template for growth of these businesses. The partnership with RIB allows EOH access to a global partner with international scale that offers cross-selling opportunities for EOH and access to a previously inaccessible customer base.
  - This approach, which is aimed at expanding reach and scaling faster, will be replicated for the other IP companies and as such we are currently actively pursuing partners for Sybrin, Syntell and Information Services.

Under the new operating structure, the Group is well positioned to support client needs while balancing its portfolio diversity and focus.

BUSINESS PERFORMANCE

The ongoing weakness in the macroeconomic environment, the ENSafrica investigation and the reputational impact of Microsoft cancelling its licence reseller agreement as well as the delay in infrastructure projects in the NEXTEC business has led to depressed revenues and margin pressure for the 2019 financial year. Additionally, the Group has undergone a reassessment of its strategy which led to certain businesses being classified as discontinued operations and assets held for sale. Further businesses have been identified as assets held for sale and discontinued operations subsequent to year end, which are still classified as continuing operations in the period under review and have impacted reported results and margins. In addition, certain non-core unprofitable businesses are being wound down (existing projects are being concluded).

EOH's revenue from continuing operations was R11 791 million down 2,6% (2018: R12 103 million*). Gross margin for the year was 20,1% compared to 28,3% in the prior year. The margin was negatively impacted by the close out of large multi-year public sector contracts and the closure of projects in the industrial technology area related to electrical infrastructure in the water sector.

Operating expenses after stripping out once-off items for both the 2018 and 2019 financial years has seen costs decrease to R2,6 billion. Once-off items include impairment of assets of R2 263 million, a R157 million IFRS 2 charge related to the BEE transaction with Lebashe Holdco and its subsidiaries ('Lebashe') and settlements and provisions of R358 million.

Normalised EBITDA for the period amounted R792 million. The impact of the previously discussed once-off items and impacts on gross margin resulted in a reduction in the profitability measures. Headline loss per share (HEPS) and loss per share (EPS) from continuing operations were 1 352 cents (2018: 728 cents) and 2 464 cents (2018: 1 277 cents), respectively.

Cash generated from operations after changes in working capital was R502 million (2018: R1 266 million).

** Restated*

OUTLOOK

Notwithstanding current challenges, the EOH Group is a business powered by its purpose to provide technology, knowledge, skills and organisational ability which are critical to the development and growth of the markets it serves and which are systemic to many of South Africa's economic stakeholders. The Group reinforces its commitment to ethical leadership and being a relevant force for good in society.

The new leadership team remains committed to future-proofing the Group by building a sustainable, agile and competitive business in an open and transparent manner while also ensuring that the right decisions are made for the good of all stakeholders at all times.

Core to creating a sustainable business are the people of EOH who have shown great loyalty and commitment during this difficult time. EOH is committed to ensuring that the Group flourishes; that the 10 500 people who work for EOH have job security and that there is an opportunity to create further jobs in the economy.

EOH is encouraged by the active support that it has received to date from its clients, technology partners and employees to help build the EOH of the future.

The condensed consolidated results were approved by the Board on 11 October 2019.

Stephen van Coller
Chief Executive Officer

Review opinion

MAZARS

Independent auditor's review report on the condensed consolidated financial statements

To the Shareholders of EOH Holdings Limited

We have reviewed the condensed consolidated financial statements of EOH Holdings Limited, contained in the accompanying preliminary report, which comprise the condensed consolidated statement of financial position as at 31 July 2019 and the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and selected explanatory notes.

Directors' Responsibility for the Condensed Consolidated Financial Statements

The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 2 to the financial statements, and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these condensed consolidated financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, which applies to a review of historical information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Basis for Qualified Conclusion

EOH Holdings Limited's condensed consolidated financial statements reflect a restatement of prior period balances, details of which are disclosed in note 6 to the condensed consolidated financial statements. Our evidence indicates that certain of the prior period restatements listed in the note should have been accounted for in the current year as they result mainly from the change in management and their revised considerations that were made in the current year and applying hindsight. According to paragraph 53 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (IAS 8), hindsight should not be used in determining adjustments to amounts for a prior period.

REGISTERED AUDITOR – A FIRM OF CHARTERED ACCOUNTANTS (SA) • IRBA REGISTRATION NUMBER 900222
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A FULL LIST OF NATIONAL PARTNERS IS AVAILABLE ON REQUEST OR AT www.mazars.co.za

The following explains our disagreement with the treatment of the adjustments:

1. Unrecorded liabilities/recoverability of assets
   a. Tax assessments - Where a tax assessment is completed and further taxes become payable, this should be recognised in the year of the assessment and not the year that was assessed; this must be presented in accordance with paragraph 80(b) and 80(h) of IAS 12 *Income Taxes* (IAS 12). Paragraph 80(h) of IAS 12 states that tax expense or income relating to errors included in profit and loss "*cannot be accounted for retrospectively*". The interest and penalties provided on these assessments must be recognised when the obligation for these items arise in accordance with paragraph 14 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37). The obligation only occurred during the current period.
   b. Provision for tax on alleged fraud - A provision for tax has been raised to account for potential tax liabilities related to the alleged fraud taking place in prior periods. This would be considered a change in estimate of the group's income tax and any change to this would be recognised prospectively in the period of the change in accordance with paragraph 36 of IAS 8. The present obligation, as required for recognition in accordance with paragraph 14 of IAS 37, for these potential taxes only arose on the discovery of the fraud, which occurred during the current period. This provision and the related tax expense cannot be raised in prior periods without applying hindsight and our audit evidence indicates that this provision should only be raised in the current period.
   c. The recoverability of the Twenty Third Century Systems (TTCS) equity-accounted investment, as discussed below, is included in this amount.
   d. The transactions in this adjustment that relate to revenue recognition and impairment of accounts receivable are discussed below.

   As result of the above taxation is overstated in the statement of profit and loss and other comprehensive income by R 20.400 million for the year ended 31 July 2018 and are understated by this amount for the year ended 31 July 2019. The tax payable balance in the statement of financial position at 1 August 2017 is understated by R 16.791 million and at 31 July 2018 by the R 20.400 million. The equity-accounted investments balance and the trade and other receivables balance in the statement of financial position are understated by R 291.343 million and R 254.559 million respectively at 31 July 2018. The trade and other payables balance is overstated in the statement of financial position at 1 August 2017 by R 83.952 million and at 31 July 2018 by R 316.491 million.

2. Inventory – Software licenses that were previously purchased with a view to resell were derecognised by current management, with an adjustment to prior years. These inventory items were recognised in the prior years in terms of paragraph 6 of IAS 2 Inventories. The change in approach is a change in judgement that was made in the current year using information that became available after the 2018 financial year. The proposed change utilises hindsight and is therefore not in accordance with paragraph 53 of IAS 8.

   Consequently, operating expenses are overstated in the statement of profit and loss and other comprehensive income by R 54.108 million for the year ended 31 July 2018 and are understated by the same amount for the year ended 31 July 2019. The inventory balance in the statement of financial position at 31 July 2018 is understated by the above amount.

3. Revenue - Where revenue was adjusted in prior years for information that became available in the 2019 financial year, we consider the reversal of this revenue to be in contravention of paragraph 53 of IAS 8. There are various transactions and contracts that were included in these adjustments. The revenue was recognised in the prior year in accordance with IAS 18 *Revenue* (IAS 18) based on evidence that supported a valid expectation that the inflow of economic benefit was probable. In a number of cases the reversal of the revenue in the prior period has been done without evidence that the economic benefits of the revenue was not probable at the time of initial recognition and consequently we do not agree with the reversal.
   Revenues are understated in the statement of profit and loss and other comprehensive income by R 159.723 million for the year ended 31 July 2018 and are overstated by this amount for the year ended 31 July 2019. The trade and other receivables balance in the statement of financial position at 31 July 2018 is understated by the above amount.

4. Internally generated intangible asset impairments – Intangible assets were recognised in prior years where they were considered to demonstrate the recognition requirements of paragraph 57 of IAS 38 *Intangible Assets* (IAS 38). Management have now reconsidered whether these requirements were met using information that became available in the current year; this would be considered a contravention of paragraph 53 of IAS 8. Our evidence indicates that the assets should have been recognised initially, as they were in the prior periods, however impairment indicators exist impacting the valuation in the current year.
   Operating expenses are overstated in the statement of profit and loss and other comprehensive income by R 365.863 million and cost of sales by R 18.964 million for the year ended 31 July 2018 and are understated for the year ended 31 July 2019 by these same amounts. The intangible assets balance in the statement of financial position at 31 July 2018 is understated by R 384.828 million.

5. Provision for impairment of financial assets – In accordance with the requirements in paragraph 58 of IAS 39 *Financial Instruments: Measurement and Recognition* (IAS 39), financial assets must be tested for impairment where impairment indicators exist. The provision consists of impaired amounts where management reassessed whether impairment indicators existed on certain financial assets in prior years, and on the re-assessment of the measurement of the impairments. The identification and measurement of impairments are changes that must be accounted for in the current year and not using hindsight to adjust prior periods. Our audit evidence indicates that the impairment should not be recognised prior periods. The proposed adjustment comprises the accounts receivable and other financial asset amounts included in TTCS and Grid Control Technologies (GCT) which are discussed below.
   Net financial impairment losses are overstated in the statement of profit and loss and other comprehensive income by R 375.485 million for the year ended 31 July 2018 and are understated for the year ended 31 July 2019 by the same amount. The trade and other receivables balance in the statement of financial position as at 31 July 2018 is overstated by R 208.379 million and the other financial assets balance by R 167.106 million.

6. Impairment of loans and investment in an associated company: TTCS - The measurement of the loans and investment in TTCS was re-evaluated by management resulting in a prior year impairment of the trade receivables, loans receivable, and of the carrying value of the investment. Our audit evidence shows that the impairment indicators that management applied in determining the impairment of the associate only existed in the current period, the conditions had not worsened between the acquisition of the associate and 31 July 2018. The associate was generating profits at the time and was not tested for impairment as management believed that there were no impairment indicators that required this test (this complies with paragraph 40 of IAS 28 *Investments in Associates and Joint Ventures*). Our audit evidence supported this. EOH obtained control of TTCS in January 2019 (as per note 15 of the provisional report) and obtained a valuation of the group at that date. This valuation was used by management in assessing whether the associate investment should have been impaired at 31 July 2018, which is in contravention of paragraph 53 of IAS 8, referring to events other than those that existed at the time. The impact of this disagreement is included in the amounts shown above.

7. Impairment of loan to GCT – Management impaired a receivable from the GCT group in the prior year balances. Our audit evidence provided by EOH management and corroborated by ourselves at the time shows that an impairment assessment was performed in the prior year, but the outstanding amounts were covered by the perfected inventory securitisation. Management at that time considered the remaining promissory notes to be recoverable as the subsequent notes were not due and payable even on non-payment of the first, and the share return dates could be renegotiated, this agrees to the revised sale contract. The revised impairment assessment is made applying hindsight and is therefore in contravention of paragraph 53 of IAS 8. The impact of this disagreement is included in the amounts shown above.

The result of the matters above is that the loss for the year ended 31 July 2019 is understated by R 1,856.937 million, the loss for the year ended 31 July 2018 is overstated by R 1,756.195 million. The retained earnings balance is therefore understated by R 1,856.937 million at 31 July 2018 and the opening retained earnings balance as at 1 August 2017 is understated by R 100.743 million. The evidence provided by management was insufficient, in our opinion, to support the full restatement of the balances for the prior period and their resultant effect on the financial results. The statement of financial position as at 31 July 2018 is misstated as detailed in the paragraphs above and there is no material impact on the statement of financial position at 31 July 2019.

Qualified Conclusion

Based on our review, except for the effects of the matters described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that these condensed consolidated financial statements of EOH Holdings Limited for the year ended 31 July 2019 are not prepared, in all material respects, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, as set out in note 2 to the financial statements, and the requirements of the Companies Act of South Africa.

Review opinion continued

Report on Other Legal and Regulatory Requirements

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified reportable irregularities in terms of the Auditing Professions Act. We have reported such matters to the Independent Regulatory Board for Auditors. The matters pertaining to the reportable irregularities have been described in note 5 to the financial statements.

Mazars
Partner: Miles Fisher
Registered Auditor
Date: 14 October 2019
Gauteng

Condensed consolidated statement of profit or loss and other comprehensive income

for the year ended 31 July 2019

Figures in Rand thousand	Notes	**Reviewed for the year ended 31 July 2019**	Restated audited*~ for the year ended 31 July 2018
Continuing operations			
Revenue	13	**11 791 070**	12 103 317
Cost of sales		**(9 421 633)**	(8 682 159)
Gross profit		**2 369 437**	3 421 158
Net financial asset impairment losses		**(606 384)**	(534 405)
Operating expenses		**(5 136 540)**	(4 227 214)
Operating loss before interest and equity-accounted loss		**(3 373 487)**	(1 340 461)
Investment income		**32 329**	38 201
Share of equity-accounted loss	10	**(9 814)**	(463)
Finance costs		**(334 949)**	(347 184)
Loss before taxation		**(3 685 921)**	(1 649 907)
Taxation		**(324 141)**	(205 915)
Loss for the year from continuing operations		**(4 010 062)**	(1 855 822)
Loss for the year from discontinued operations**	14	**(861 455)**	(129 729)
Loss for the year		**(4 871 517)**	(1 985 551)
Other comprehensive income			
Exchange differences on translating foreign operations (may be reclassified)		**(3 451)**	(48 317)
Total comprehensive income for the year		**(4 874 968)**	(2 033 868)
(Loss)/profit attributable to:			
Owners of EOH Holdings Limited		**(4 874 052)**	(1 976 195)
Non-controlling interest		**2 535**	(9 356)
		(4 871 517)	(1 985 551)
Total comprehensive income attributable to:			
Owners of EOH Holdings Limited		**(4 877 503)**	(2 021 478)
Non-controlling interest		**2 535**	(12 390)
		(4 874 968)	(2 033 868)
From continuing and discontinued operations (cents)			
Loss per share		**(2 995)**	(1 367)
Diluted loss per share		**(2 995)**	(1 367)
From continuing operations (cents)			
Loss per share		**(2 464)**	(1 277)
Diluted loss per share		**(2 464)**	(1 277)

* *Refer to note 6 – Restatement of financial statements for the impact on profit or loss.*

** *Restated to include discontinued operations identified in 2019.*

~ *Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2019.*

Headline earnings per share

for the year ended 31 July 2019

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Restated audited* for the year ended 31 July 2018
Loss attributable to owners of EOH Holdings Limited	**(4 874 052)**	(1 976 195)
Adjusted for:		
Loss on disposal of property, plant and equipment	**34 761**	430
(Profit)/loss on disposal of subsidiaries (discontinued)	**(329 603)**	392 450
Loss on deemed disposal and disposal of subsidiaries and associates (continuing)	**173 975**	–
Impairment of goodwill	**1 855 341**	84 710
Impairment of equity accounted investments	**267 905**	301 343
Impairment of intangible assets	**135 594**	410 625
Gain on bargain purchase	**–**	(7 528)
Total tax effects on adjustments	**–**	4 385
Headline earnings from continuing and discontinued operations	**(2 736 079)**	(789 780)
Loss attributable to owners of EOH Holdings Limited	**(4 874 052)**	(1 976 195)
Adjust for losses from discontinued operations	**863 515**	129 729
Continuing loss attributable to ordinary share holders	**(4 010 537)**	(1 846 466)
Adjustments	**1 810 056**	793 965
Headline earnings from continuing operations	**(2 200 481)**	(1 052 501)
From continuing and discontinued operations (cents)		
Headline loss per share	**(1 681)**	(546)
Diluted headline loss per share	**(1 681)**	(546)
From continuing operations (cents)		
Headline loss per share	**(1 352)**	(728)
Diluted headline loss per share	**(1 352)**	(728)
Ordinary shares (in thousands)		
Total number of shares in issue	**176 545**	152 797
Weighted average number of shares in issue	**162 742**	144 597
Weighted average diluted number of shares in issue**	**162 742**	144 597

* *Refer to note 6 – Restatement of financial statements for the impact on earnings.*

** *The impact of shares to be issued to vendors, share options and EOH A shares has been excluded from the weighted average diluted number of shares as they would be anti-dilutive.*

Condensed consolidated statement of financial position

as at 31 July 2019

Figures in Rand thousand	Notes	**Reviewed at 31 July 2019**	Restated audited* at 31 July 2018	Restated audited* at 1 August 2017
ASSETS				
Non-current assets				
Property, plant and equipment	7	**481 674**	742 983	677 719
Goodwill	8	**1 850 854**	4 255 281	4 625 403
Intangible assets	9	**488 974**	880 392	1 449 296
Equity-accounted investments	10	**228 067**	530 861	847 917
Other financial assets	16	**11 610**	499 040	214 156
Deferred taxation		**245 278**	327 270	196 764
Finance lease receivables		**72 638**	130 602	169 611
		3 379 095	7 366 429	8 180 866
Current assets				
Inventory		**251 456**	377 501	599 764
Other financial assets	16	**76 718**	205 692	141 112
Current taxation receivable		**52 916**	88 442	84 383
Finance lease receivables		**106 775**	63 307	74 610
Trade and other receivables		**3 164 150**	4 733 305	5 132 697
Cash and cash equivalents		**1 048 583**	1 418 319	2 506 551
		4 700 598	6 886 566	8 539 117
Assets held for sale	11	**1 759 357**	–	–
Total assets		**9 839 050**	14 252 995	16 719 983
EQUITY AND LIABILITIES				
Equity				
Equity attributable to the owners of EOH Holdings Limited**		**1 916 074**	5 919 033	8 404 445
Non-controlling interest		**40 622**	17 789	56 416
		1 956 696	5 936 822	8 460 861
LIABILITIES				
Non-current liabilities				
Other financial liabilities	16	**2 255 825**	3 208 415	3 017 416
Finance lease payables		**28 030**	56 388	65 594
Deferred taxation		**389 416**	388 042	406 132
		2 673 271	3 652 845	3 489 142
Current liabilities				
Other financial liabilities	16	**1 068 132**	895 581	1 523 676
Current taxation payable		**97 988**	170 230	164 973
Finance lease payables		**29 331**	35 360	41 187
Trade and other payables		**3 006 403**	3 139 220	2 550 599
Provisions		**173 400**	–	–
Deferred income		**268 949**	422 937	489 545
		4 644 203	4 663 328	4 769 980
Liabilities directly associated with the assets held for sale	11	**564 880**	–	–
Total liabilities		**7 882 354**	8 316 173	8 259 122
Total equity and liabilities		**9 839 050**	14 252 995	16 719 983

* *Refer to note 6 – Restatement of financial statements for the impact on the affected assets, liabilities and equity.*

** *Refer to note 4 – Changes in accounting policies for the impact of the adoption of IFRS 9 and IFRS 15.*

Condensed consolidated statement of changes in equity

for the year ended 31 July 2019

Figures in Rand thousand	Stated capital	Shares to be issued to vendors	Other reserves	Retained earnings	Total attributable to the owners of EOH	Non-controlling interest	Total equity
Audited balance at 1 August 2017	3 333 678	1 013 809	665 937	3 491 764	8 505 188	56 416	8 561 604
Correction of error (note 6)	–	–	–	(100 743)	(100 743)	–	(100 743)
Restated audited* balance at 1 August 2017	3 333 678	1 013 809	665 937	3 391 021	8 404 445	56 416	8 460 861
Loss for the year (restated)*	–	–	–	(1 976 195)	(1 976 195)	(9 356)	(1 985 551)
Other comprehensive income	–	–	(45 283)	–	(45 283)	(3 034)	(48 317)
Issue of shares	219 751	(207 491)	–	–	12 260	–	12 260
Non-controlling interest acquired	1 000	–	–	(105 484)	(104 484)	(22 140)	(126 624)
Movement in treasury shares	(111 206)	–	(53 094)	–	(164 300)	–	(164 300)
Remaining shares to be issued to vendors	–	288 989	–	–	288 989	–	288 989
Consideration – EOH shares forfeited	–	(74 549)	–	–	(74 549)	–	(74 549)
Transfer within equity	–	(210 783)	–	210 783	–	–	–
Share-based payments	–	–	95 562	–	95 562	–	95 562
Dividends	–	–	–	(311 720)	(311 720)	–	(311 720)
Restated audited* balance at 31 July 2018	3 443 223	809 975	663 122	1 208 405	6 124 725	21 886	6 146 611
Effect of adoption of new standards (refer to note 4)**	–	–	–	(205 692)	(205 692)	(4 098)	(209 790)
As at 1 August 2018 (restated)	3 443 223	809 975	663 122	1 002 713	5 919 033	17 788	5 936 821
Loss for the year	–	–	–	(4 874 051)	(4 874 051)	2 535	(4 871 516)
Other comprehensive income	–	–	(3 451)	–	(3 451)	–	(3 451)
Issue of shares	762 712	(44 067)	–	–	718 645	–	718 645
Non-controlling interest acquired	–	–	–	–	–	(300 448)	(300 448)
Movement in treasury shares	33 686	(12 703)	(53 714)	–	(32 731)	–	(32 731)
Non-controlling interest disposed	–	–	–	–	–	320 747	320 747
Consideration – EOH shares forfeited	–	(21 957)	–	–	(21 957)	–	(21 957)
Transfer within equity***	–	(372 515)	(111 184)	483 699	–	–	–
Share-based payments	–	–	53 141	157 445	210 586	–	210 586
Reviewed balance at 31 July 2019	4 239 621	358 733	547 914	(3 230 194)	1 916 074	40 622	1 956 696

Note

* *Refer to note 6 – Restatement of financial statements for the impact on profit and loss and retained earnings.*

** *Refer to note 4 – Changes in accounting policies for the impact of the adoption of IFRS 9 and IFRS 15.*

*** *Transfers within equity are transfers from shares to be issued to vendors for expired shares and transfers from share-based payment reserve for expired, unexercised options.*

Condensed consolidated statement of cash flows

for the year ended 31 July 2019

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Audited for the year ended 31 July 2018
Cash generated from operations	**502 107**	1 266 021
Investment income	**39 657**	51 184
Finance costs	**(341 088)**	(282 337)
Taxation paid	**(313 155)**	(369 688)
Net cash (outflow)/inflow from operating activities	**(112 479)**	665 180
Cash flows from investing activities		
Additions to property, plant and equipment	**(221 818)**	(261 518)
Proceeds on the sale of property, plant and equipment and intangible assets	**15 972**	63 020
Intangible assets acquired	**(181 587)**	(336 591)
Net cash inflow/(outflow) from acquisition/disposal of businesses	**369 164**	(61 452)
Cash inflow/(outflow) relating to other financial assets	**200 181**	(83 187)
Net cash inflow/(outflow) from investing activities	**181 912**	(679 728)
Cash flows from financing activities		
Proceeds from the issue of shares	**720 282**	10 248
Proceeds from other financial liabilities	**967 307**	502 849
Repayment of other financial liabilities	**(1 745 982)**	(1 070 477)
Purchases of treasury shares	**–**	(141 295)
Finance lease payments	**(32 563)**	(49 592)
Dividends paid	**–**	(311 798)
Net cash outflow from financing activities	**(90 956)**	(1 060 065)
Net decrease in cash and cash equivalents	**(21 523)**	(1 074 613)
Cash and cash equivalents at the beginning of the year	**1 418 319**	2 506 551
Current assets held for sale	**(310 373)**	–
Foreign currency translation	**(37 840)**	(13 619)
Cash and cash equivalents at the end of the year	**1 048 583**	(1 418 319)

Segment results

for the year ended 31 July 2019

The reportable segments of the Group have been identified based on the nature of the business activities. This basis is representative of the internal structure of the Group for management purposes. The Chief Operating Decision Maker ('CODM') is Exco.

iOCO consists of the Information and Communications Technology (ICT) operations in South Africa and internationally. NEXTEC consists of Industrial Technologies and Business Process Outsourcing.

IP comprises businesses which have developed proprietary software and solutions for customers.

The CODM is not presented with secondary information in the form of geographic information and as a result, is not disclosed in the segment results. Liabilities and assets are also not regularly provided to the CODM and are not disclosed in the segment report.

Revenue and normalised EBITDA from continuing operations:

	Reviewed for the year ended 31 July 2019					Restated audited for the year ended 31 July 2018*				
Figures in Rand thousand	iOCO	NEXTEC	IP	Recon-ciliation^	Total	iOCO	NEXTEC	IP	Recon-ciliation	Total
Revenue										
Revenue	**6 931 563**	**7 142 522**	**1 714 984**	**(415 670)**	**15 373 399**	7 548 559	6 993 953	1 596 988	(268 153)	15 871 347
Discontinued operations	**659 027**	**2 472 118**	**451 184**	**–**	**3 582 329**	641 696	2 635 180	491 154	–	3 768 030
Continuing revenue	**6 272 536**	**4 670 404**	**1 263 800**	**(415 670)**	**11 791 070**	6 906 863	4 358 773	1 105 834	(268 153)	12 103 317
Gross profit										
Gross profit	**1 212 491**	**1 054 223**	**713 902**	**(49 218)**	**2 931 398**	2 149 938	1 524 509	822 505	(2 946)	4 494 006
Discontinued operations	**73 087**	**325 535**	**163 339**	**–**	**561 961**	243 822	590 623	238 403	–	1 072 848
Continuing gross profit	**1 139 404**	**728 688**	**550 563**	**(49 218)**	**2 369 437**	1 906 116	933 886	584 102	(2 946)	3 421 158
Continuing gross profit (%)	**18,2%**	**15,6%**	**43,6%**	**11,8%**	**20,1%**	27,6%	21,4%	52,8%	1,1%	28,3%
EBITDA**	**224 899**	**(9 845)**	**249 959**	**(199 000)**	**266 013**	269 632	109 811	258 655	(279 600)	358 498
Non-core business lines to be closed~	**279 254**	**246 800**	**–**	**–**	**526 054**	578 694	18 042	–	–	596 736
Normalised EBITDA	**504 153**	**236 955**	**249 959**	**(199 000)**	**792 067**	848 326	127 853	258 655	(279 600)	955 234
Normalised EBITDA (%)	**8,0%**	**5,1%**	**19,8%**	**47,9%**	**6,7%**	12,3%	2,9%	23,4%	104,3%	7,9%

EBITDA reconciliation

	Reviewed for the year ended 31 July 2019	Restated* audited for the year ended 31 July 2018
Operating loss before interest and equity-accounted losses	**(3 373 487)**	(1 340 461)
Depreciation and amortisation	**367 129**	401 547
Share of equity-accounted (losses)/profits	**(9 814)**	(463)
Impairment losses	**1 630 674**	758 469
Loss on disposal of assets	**173 974**	–
Stock and OEM write-offs	**302 044**	–
Lebashe – A shares (IFRS 2)	**157 444**	–
Provision for debtors	**342 760**	286 430
GCT provisions	**289 587**	124 356
Provision relating to non-compliance	**183 488**	208 002
Other once-off adjustments	**202 213**	(79 381)
EBITDA**	**266 013**	358 498
Non-core business lines to be closed~	**526 054**	596 736
Normalised EBITDA	**792 067**	955 234

* *Comparative figures previously reported have been amended to reflect continuing operations and segments prevailing for the year ended 31 July 2019, as well as correction of prior period errors.*

** *EBITDA is defined as continuing losses before interest, tax, depreciation, amortisation, impairments, gains or losses on disposal of businesses and equity-accounted investments, once-off cash and non-cash items and includes profit or loss from equity-accounted investments.*

^ *Reconciliation comprises internal transactions and head office expenses.*

~ *Non-core business lines to be closed reflect businesses identified to be shutdown in that year and preceding years.*

Notes to the condensed consolidated financial statements

for the year ended 31 July 2019

1. REPORTING ENTITY

EOH Holdings Limited ('EOH' or the 'Company') is a holding company domiciled in South Africa that is listed on the JSE Limited under the category Technology: Software and Computer Services. EOH is one of the largest Information and Communications Technology ('ICT') services providers in South Africa and is committed to providing the technology, knowledge, skills and organisational ability critical to the development and growth of the markets it serves. The condensed consolidated financial statements of EOH, as at 31 July 2019 and for the year ended 31 July 2019, comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's investments in associates and joint ventures.

2. STATEMENT OF COMPLIANCE

The condensed consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ('IFRS') and its interpretations adopted by the International Accounting Standards Board ('IASB') and comply with the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and contain at a minimum the information required by IAS 34: Interim Financial Reporting, the requirements of the Companies Act No 71 of 2008 of South Africa and the JSE Limited Listings Requirements.

3. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value through profit or loss at the end of each reporting period.

The condensed consolidated financial statements are presented in South African Rand, which is the Group's presentation currency, rounded to the nearest thousand except for when otherwise indicated. The going concern basis has been used in preparing the condensed consolidated financial statements as the directors have a reasonable expectation that the Group will continue as a going concern for the foreseeable future.

The accounting policies and methods of computation applied in the condensed consolidated financial statements are consistent with those applied in the previous years, except as set out below.

The comparative financial information in the condensed consolidated financial statements has been restated based on information available at 31 July 2018. Refer to note 4 and note 6 for further information.

4. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group has applied the following standards and amendments for the first time to their annual reporting period commencing 1 August 2018:

4.1 IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments replaces IAS 39 – Financial Instruments: Recognition and Measurement for Annual Periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied IFRS 9 retrospectively without restating comparatives, with an initial application date of 1 August 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings and non-controlling interests.

Notes to the condensed consolidated financial statements continued

for the year ended 31 July 2019

4. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP continued

4.1 IFRS 9 – Financial Instruments continued

The effect of adopting IFRS 9 as at 1 August 2018 was, as follows:

Figures in Rand thousand	**Classification**	**Restated* balance under IAS 39**	**1 August 2018 remeasurement**	**Balance under IFRS 9**
Impairment allowance:				
Other financial assets	Amortised cost	167 106	35 521	202 627
Trade and other receivables	Amortised cost	447 154	126 826	573 980
Contract assets	Contract assets	–	37 534	37 534
Finance lease receivables	Finance lease receivables	–	9 909	9 909

** Refer to note 6 – Restatement of financial statements for the impact on the affected assets.*

The adoption of IFRS 9 fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward looking expected credit loss approach. IFRS 9 requires the Group to recognise an allowance for expected credit losses for all financial assets not held at fair value through profit or loss and contract assets and finance lease receivables.

The additional impairments recognised with regard to other financial assets; trade and other receivables, contract assets and finance lease receivables resulted in a decrease in retained earnings of R206 million and a decrease in non-controlling interests of R4 million as at 1 August 2018.

4.2 IFRS 15: Revenue from Contracts with Customers

The adoption of IFRS 15 – Revenue from Contracts with Customers did not have a material impact on the Group's condensed consolidated financial statements. The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 August 2018.

5. REPORTABLE IRREGULARITIES BY THE AUDITORS

The following reportable irregularities ('RIs') in terms of section 45 of the Auditing Profession Act were raised by the independent auditors during the current financial year:

1. Potentially suspicious transactions amounting to approximately R1,2 billion were entered into by EOH with suppliers, where the transactions may have related to illegitimate transactions, theft or bribery and corruption payments. These transactions appear to be primarily limited to the public sector business and to a limited number of EOH employees. Current EOH management have engaged with external parties to investigate the suspicious transactions.

   The above would indicate that past directors and management failed to act in the best interests of the Company and in the public interest.

2. EOH provided funding in the form of an enterprise development loan to an entity which became an associated party. Previous directors of EOH as well as a director of the associated party failed to disclose the interests in the said contract at the time of becoming an associated party. It was alleged that the proceeds of the loan were passed through the associated party to another entity and thus not utilised for the original purpose of the loan. Management further alleged that the money was utilised for a political event and was initially not intended to be repaid.

   EOH allegedly supplied IT equipment to an entity it was not specifically intended for with the intention of garnering favour with respect to future contracts. The invoice indicated that the equipment was sold to a related entity, though it was intended elsewhere.

   Monies were paid to an entity where the allegations are that this was used as a vehicle to donate funds to a political party.

   A donation was made, assisting in the payment of various expenditures, to an entity responsible for the awarding of tenders, in the same month as the awarding of the tender.

6. RESTATEMENT OF FINANCIAL STATEMENTS

During the current year, management identified a number of transactions that appeared to have been processed incorrectly in both current and prior periods; the impact of these transactions spanned various accounting topics, including revenue recognition, asset capitalisation and subsequent recovery, and timing of recognition of liabilities and other provisions for impairment.

In assessing whether the identified adjustments should be processed as prior period errors or recognised in the current period, management considered whether the facts that gave rise to the adjustments existed in prior years, or whether those events only arose due to information that came to light in the current year. The 2018 condensed consolidated financial statements and the condensed consolidated statement of financial position as at 1 August 2017 have been restated to correct the prior period errors. As a result of the extent and complexity of the restatements required to correct these errors, management have grouped the restatements according to the nature of these errors.

A brief explanation of each group of errors is provided below, following which an analysis is included of the financial impact on the affected financial statement line items:

Revenue

Under IAS 18 *Revenue*, revenue could only be recognised once it was probable that the economic benefits associated with the transaction would flow to the seller and the amount of revenue could be measured reliably, among other requirements. A number of revenue transactions had been recognised in prior years, for which it was not probable that benefits would flow to the Group due to a lack of valid and enforceable rights to the benefits, as valid contracts or other binding agreements were not in place at the time. These transactions primarily related to arrangements in the public sector. The requirements to recognise revenue for these transactions under IAS 18 were not met in prior years, based on the facts and circumstances that existed in prior years. The Group has therefore corrected for these errors in the prior year through the reversal of revenue, trade receivables and work-in-progress (unbilled revenue) balances.

In addition, a number of revenue transactions, for which the Group would have been considered to be an agent using information available in prior years had been incorrectly recognised on a gross basis in prior years due to the lack of an assessment of the Group's agent/principal status in prior periods. This incorrect application of the accounting principles in the prior year has also been adjusted as a prior period error through the reversal of revenue and cost of sales and only recognising the margin as revenue.

Internally generated intangible assets

IAS 38 *Intangible Assets* distinguishes between research and development costs with regards to internally generated intangible assets. Costs related to research activities are expensed and costs related to development activities are capitalised if they meet certain specified criteria. Further, if an entity cannot distinguish the research phase from the development phase of an internal project, the entity treats the expenditure on that project as if it were incurred in the research phase only. The Group had capitalised certain costs incurred on internally generated intangible assets, for which the criteria for capitalisation as development costs had not been demonstrated in prior years. For the majority of these intangible assets, business plans had not been prepared and the ability of the assets to generate future economic benefits had not been demonstrated; the specified criteria set out in IAS 38 were therefore not met at the time of initial recognition of the intangible assets based on factors that existed at that time. The costs incurred should therefore never have been capitalised but, instead, recognised as research costs as incurred. Correction of this error has resulted in the reversal of capitalised intangible assets together with the reversal of any related amortisation of the capitalised intangible assets and an increase in research costs expensed.

Inventory licences

IAS 2 *Inventories* requires that for items to be capitalised as inventory, it should first meet the definition of an asset. The conceptual framework defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

6. RESTATEMENT OF FINANCIAL STATEMENTS continued

Costs were incurred and capitalised as inventory in prior years even though it was doubtful, at the time of incurring the costs, that future economic benefits would flow to the Group. This relates largely to acquired licences that were assigned to specified potential customers which, once assigned, could only be sold to that potential customer, but for which the Group had no commitment from the potential customer that it would acquire the licence. Management believe that the costs incurred to acquire these licences should therefore have been recognised as an expense when incurred, taking into account the information that existed at the time of initial recognition. Accordingly, correction of this error has resulted in the reversal of inventory and an increase in expenses.

Provision for impairment on financial assets

Under IAS 39 *Financial Instruments: Recognition and Measurement* principles, a financial asset carried at amortised cost is impaired, and impairment losses recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset. An entity is therefore required to assess at each reporting date whether there is any objective evidence of impairment. If such evidence exists, the entity is required to perform a detailed impairment calculation to determine whether an impairment loss should be recognised. Management identified certain financial assets carried at amortised cost, for which impairment indicators existed in prior years, including defaults on scheduled payments. The Group did not perform an adequate impairment assessment for these financial assets in prior years, despite the existence of these impairment indicators. Had an assessment been performed using information available at the time, additional impairment provisions would have been recognised. Correction of these errors has resulted in an increase in the provision for impairment, as well as an increase in the impairment expense for the prior period.

In the prior year, GCT had defaulted on loan repayments due to the Group, resulting in the existence of an indicator of impairment under IAS 39 at 31 July 2018. The Group did not identify the impairment indicator for GCT as a counterparty at that time, and therefore did not perform an adequate impairment test. An assessment of impairment, taking into account the facts that existed at 31 July 2018, resulted in the need to recognise an impairment provision on the GCT loan as a prior period error, with subsequent deterioration in 2019 being recognised in the current year.

Unrecorded liabilities/recoverability of assets

The Group has identified certain tax liabilities pertaining to prior periods that should have been recognised in prior years, but for which there was no accounting at the time. Such tax liabilities include liabilities which were assessed as a result of the ENS investigations. These tax liabilities arose from obligations that existed in prior years and not from reassessments of the Group's tax liability position, and should have been recognised in prior periods based on information that existed at that time.

Additionally, management has identified cases in which revenue had been recognised for work performed in prior periods, without proper accrual of related costs incurred.

Recognition of these liabilities and accruals has been accounted for as a prior period error, resulting in increases in tax liabilities and trade and other payables, as well as increases in the expenses in the periods to which it relates.

A number of impairment indicators for the Group's investment in TTCS, trade receivables and loan balances existed in prior years – these included:
- Default by TTCS, prior to 31 July 2018, on the repayment of debtor and loan balances due to the Group;
- Significant deterioration in key ratios of TTCS in the prior periods; and
- Ongoing and persistent foreign currency shortages in Zimbabwe.

Although impairment indicators existed in prior periods, the Group did not previously perform adequate impairment tests related to TTCS, which would have resulted in impairment provisions being recognised. The loan and debtor balance from TTCS, along with the Group's investment in TTCS have been adjusted as prior period errors, with subsequent deterioration in 2019 being recognised in the current year.

The identified errors have been corrected by retrospective restatement in the period to which it relates. In most cases, it is impracticable to distinguish the period-specific effect of the error, due to changes in management and the lack of availability of information, in which case the error was corrected in the comparative 2018 condensed consolidated financial statements. The portion of the tax liabilities related to the ENS investigations pertaining to financial periods ended before 1 August 2017 have been adjusted for against the opening balances of liabilities and equity as at 1 August 2017.

6. RESTATEMENT OF FINANCIAL STATEMENTS continued

The errors have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Statement of financial position (extract) as at 1 August 2017

Figures in Rand thousand	Audited at 31 July 2017	Correction of prior period errors: Revenue	Internally generated intangible assets	Inventory	Provision for impairment of financial assets	Unrecorded liabilities/ recoverability of assets	**Restated audited at 1 August 2017**
Intangible assets	1 449 296						**1 449 296**
Equity-accounted investments	847 917						**847 917**
Other financial assets	355 268						**355 268**
Inventory	599 764						**599 764**
Trade and other receivables	5 132 697						**5 132 697**
Current taxation payable	(148 182)					(16 791)	**(164 973)**
Trade and other payables	(2 466 647)					(83 952)	**(2 550 599)**
Net assets	8 561 604	–	–	–	–	(100 743)	**8 460 861**
Retained earnings	(3 491 764)	–	–	–	–	100 743	**3 391 021**
Total equity	(8 561 604)	–	–	–	–	100 743	**(8 460 861)**

Statement of financial position (extract) as at 31 July 2018

Figures in Rand thousand	Audited at 31 July 2018	Correction of prior period errors: Revenue	Internally generated intangible assets	Inventory	Provision for impairment of financial assets	Unrecorded liabilities/ recoverability of assets	Adoption of IFRS 9 (refer note 4)	**Restated audited at 31 July 2018**
Intangible assets	1 265 220		(384 828)					**880 392**
Equity-accounted investments	822 204					(291 343)		**530 861**
Other financial assets	907 359				(167 106)		(35 521)	**704 732**
Inventory	431 609			(54 108)				**377 501**
Trade and other receivables	5 583 044	(219 660)			(208 379)	(257 340)	(164 360)	**4 733 305**
Finance lease receivables	203 818						(9 909)	**193 909**
Current taxation payable	(149 830)					(20 400)		**(170 230)**
Trade and other payables	(2 760 283)					(378 937)		**(3 139 220)**
Net assets	8 128 713	(219 660)	(384 828)	(54 108)	(375 485)	(948 020)	(209 790)	**5 936 822**
Retained earnings	(3 184 359)	219 660	384 828	54 108	375 485	948 020	209 790	**(992 468)**
Total equity	(8 128 713)	219 660	384 828	54 108	375 485	948 020	209 790	**(5 936 822)**

Notes to the condensed consolidated financial statements continued

for the year ended 31 July 2019

6. RESTATEMENT OF FINANCIAL STATEMENTS continued

Statement of profit or loss and other comprehensive income (extract) for the year ended 31 July 2018

		Correction of prior period errors						
Figures in Rand thousand	Audited 31 July 2018	Revenue	Internally generated intangible assets	Inventory	Provision for impairment on financial assets	Unrecorded liabilities	Reclassified as discontinued operations (note 14)	**Restated audited 31 July 2018**
Continuing operations								
Revenue	16 341 024	(469 678)					(3 768 029)	**12 103 317**
Cost of sales	(11 523 643)	250 018	(18 964)			(84 751)	2 695 181	**(8 682 159)**
Gross profit	4 817 381	(219 660)	(18 964)	–	–	(84 751)	(1 072 848)	**3 421 158**
Net financial asset impairment losses	(197 998)				(375 485)		39 078	**(534 405)**
Operating expenses	(3 811 494)		(365 863)	(54 108)		(758 917)	763 168	**(4 227 214)**
Operating loss before interest and equity-accounted profit	807 889	(219 660)	(384 827)	(54 108)	(375 485)	(843 668)	(270 602)	**(1 340 461)**
Investment income	52 750						(14 549)	**38 201**
Share of equity-accounted profit	48 223						(48 686)	**(463)**
Finance costs	(352 145)						4 961	**(347 184)**
Profit/(loss) before taxation	556 717	(219 660)	(384 827)	(54 108)	(375 485)	(843 668)	(328 876)	**(1 649 907)**
Taxation	(268 460)					(3 609)	66 154	**(205 915)**
Profit/(loss) for the year from continuing operations	288 257	(219 660)	(384 827)	(54 108)	(375 485)	(847 277)	(262 722)	**(1 855 822)**
Loss for the year from discontinued operations	(392 450)						262 722	**(129 729)**
Loss for the year	(104 193)	(219 660)	(384 827)	(54 108)	(375 485)	(847 277)	–	**(1 985 551)**
Other comprehensive income	(48 317)							**(48 317)**
Total comprehensive income for the year	(152 510)	(219 660)	(384 827)	(54 108)	(375 485)	(847 277)	–	**(2 033 868)**
Loss attributable to:								
Owners of EOH Holdings Limited	(100 984)							**(1 976 195)**
Non-controlling interest	(3 209)							**(9 356)**
Total	(104 193)							**(1 985 551)**
Total comprehensive income attributable to:								
Owners of EOH Holdings Limited	(146 267)							**(2 021 478)**
Non-controlling interest	(6 243)							**(12 390)**
Total	(152 510)							**(2 033 868)**

From continuing and discontinued operations (cents)	Audited 31 July 2018	**Restated audited 31 July 2018**
Loss per share	(70)	**(1 367)**
Diluted loss per share	(68)	**(1 367)**
Headline earnings/(loss) per share	283	**(546)**
Diluted earnings/(loss) per share	276	**(546)**
From continuing operations (cents)		
Earnings/(loss) per share	202	**(1 277)**
Diluted earnings/(loss) per share	196	**(1 277)**
Headline earnings/(loss) per share	278	**(728)**
Diluted earnings/(loss) per share	271	**(728)**

The restatement adjustments are all non-cash adjustments and therefore do not impact cash generated before working capital changes or any other line items on the consolidated statement of cash flows.

7. PROPERTY, PLANT AND EQUIPMENT

Figures in Rand thousand	**Reviewed at 31 July 2019**	Audited at 31 July 2018
Opening balance	**742 983**	677 719
Additions	**226 268**	289 470
Acquired in business combinations	**8 180**	13 517
Foreign currency translation	**(1 047)**	(1 699)
Disposals	**(46 131)**	(72 881)
Disposal of businesses	**(26 506)**	–
Depreciation	**(204 848)**	(163 143)
Current assets held for sale	**(217 225)**	–
Closing balance	**481 674**	742 983

8. GOODWILL

Figures in Rand thousand	**Reviewed 31 July 2019**	Restated audited at 31 July 2018
Opening balance	**4 255 281**	4 625 403
Acquired in business combinations	**70 877**	340 255
Foreign currency translation	**27 874**	9 268
Disposals	**(325 605)**	(634 935)
Impairments: discontinued	**(506 762)**	–
Impairments: continuing	**(1 348 579)**	(84 710)
Current assets held for sale	**(322 232)**	–
Closing balance	**1 850 854**	4 255 281

A number of economic, operational and negative events during the year ended 31 July 2019 had a significant negative impact on EOH's market capitalisation and certain underlying businesses. The Group has also gone through a review of its strategy which impacted CGU allocations. This, combined with the sale and discontinuation of certain non-core business activities, has resulted in a material impact on the carrying value of goodwill. The Group performed a review of goodwill for impairment, which highlighted impairments of R1 855 million (R613 million in the iOCO segment and R1 242 million in the NEXTEC segment).

iOCO

The impairments to goodwill in iOCO relate mainly to EOH's public sector-focused ERP businesses. Goodwill amounting to R198 million across a number of CGUs was impaired due to continued project complexities, slow debtor recoveries and the impact of no further large ERP projects on the continuing outsourcing business.

A further R116 million in impairments in this division were driven by lost or delayed contracts and projects as a result of the reputational damage sustained by EOH.

Goodwill relating to iOCO International CGUs was impaired by R114 million driven mainly by weaker cash conversion and project delivery difficulties in the Middle East and European entities.

The balance of the iOCO impairments relates to a number of CGUs which have been negatively impacted by challenging market conditions.

8. GOODWILL continued

NEXTEC

The industrial technologies division of NEXTEC sustained a number of impairments as detailed below:

- The rail transport technologies' CGU was impaired by R146 million, due to continuing difficulties in completing active contracts and ongoing delays in starting new contracts which have driven continued underperformance against budgets.
- Despite project awards and sign-off for various REIPP projects in the energy sector (electricity generation), there have been continued delays in project launch and completion of transmission and distribution projects both in South Africa and Mozambique, resulting in an impairment of R196 million in Energy-related CGUs.
- CGUs providing water infrastructure solutions continue to be impacted by project kick-off delays on projects in hand, as well as new project awards as a result of public sector funding and administrative issues, which have resulted in continued underperformance to budgets and impairments of R131 million.
- Margins within the digital infrastructure businesses have also been negatively impacted by original equipment manufacturers opting to sell directly to customers, resulting in a drop in revenue and margin as well as an impairment of R90 million to goodwill.
- Impairments of R55 million relate to certain non-core CGUs that are held for sale.

The business process outsourcing division of NEXTEC sustained a number of impairments as detailed below:

- A number of CGUs which provide employee services, were impacted by the 2018 High Court ruling related to temporary staffing. This resulted in decreased revenue and reduced margins, driving impairments of R117 million.
- Changes in US legislation governing clinical trials resulted in a loss of customers in the outsourced clinical trials business. This has impacted the earnings forecast and profitability levels resulting in an impairment of R95 million.
- Impairments of R67 million relate to certain non-core CGUs that are held for sale.
- Inability to maintain and secure customer contracts contributed to R63 million of the impairment recognised.

The balance of the NEXTEC impairments relate to a number of CGUs impacted by the negative events and challenging South African market conditions, resulting in further impairments.

9. INTANGIBLE ASSETS

Figures in Rand thousand	**Reviewed at 31 July 2019**	Restated audited* at 31 July 2018
Opening balance	**880 392**	1 449 296
Additions	**186 424**	336 592
Acquired in business combinations	**–**	141 801
Foreign currency translation	**(4 970)**	(425)
Impairments	**(135 594)**	(393 494)
Disposals	**(20 549)**	(390 660)
Disposals through business combinations	**(136 073)**	–
Amortisation	**(230 968)**	(262 718)
Current assets held for sale	**(49 688)**	–
Closing balance	**488 974**	880 392

** Refer to note 6 for further information regarding the restatement of the prior year.*

Impairments to intangible assets largely relate to:
- Customer relationships and customer contracts were impaired for R107 million after the profitability of the related relationships and contracts deteriorated below expected levels.
- The remaining impairments relate to other internally generated software in a number of underperforming CGUs in which goodwill impairments have also been recognised of R28 million.

10. EQUITY-ACCOUNTED INVESTMENTS

Figures in Rand thousand	**Reviewed at 31 July 2019**	Restated audited* at 31 July 2018
Opening balance	**530 861**	847 917
Additions	**190 454**	–
Dividends received	**–**	(3 638)
Foreign currency translation	**(83 307)**	(60 298)
Foreign currency translation recognised in profit or loss	**94 550**	–
Disposals**	**(146 460)**	–
Capital contribution	**3 243**	–
Impairment: Continuing operations	**(146 500)**	–
Impairment: Discontinued operations	**(121 405)**	(301 343)
Share of equity-accounted losses (continuing)	**(9 814)**	(463)
Share of equity-accounted (losses)/profits (discontinued)	**(11 087)**	48 686
Current assets held for sale	**(72 468)**	–
Closing balance	**228 067**	530 861

** Refer to note 6 for further information regarding the restatement of the prior year.*
*** Refer to note 16 for further information regarding the change of control in the TTCS Group.*

Notes to the condensed consolidated financial statements continued

for the year ended 31 July 2019

EOH Mthombo sold 70% of its wholly owned subsidiary Construction Computer Software (CCS) for an amount of R444 million to RBI Limited, a subsidiary of German-listed RIB Software SE (RIB) as at 31 July 2019. EOH retains a 30% shareholding in CCS, and will be able to participate in CCS expansion and growth. The change in shareholding is reflected as an addition to equity investments, the entity was formerly recognised as a subsidiary.

Equity accounted investments have been impaired by R268 million

- As part of the Group's strategy to exit from non-core operations, a number of equity-accounted investments have been classified as held for sale.
- R75 million of the impairments relate to EOH's investments in Turkey as a result of increased levels of political and macro-economic risk causing delays in project kick-offs and a deterioration in cash recovery rates.
- Margin erosion, deterioration in pipeline and reduced cash conversion rates triggered an impairment of R151 million in EOH's South American-based ERP utilities investment.

The equity-accounted investments are as follows:

Figures in Rand thousand	**Reviewed at 31 July 2019**	Restated audited* at 31 July 2018
Continuing equity accounted investments		
Computer Construction Software	**190 453**	–
Asay Group	**24 538**	80 037
Cozumevi	**13 071**	35 934
TTCS Group	**–**	161 266
Virtuoso Consulting	**–**	112 636
Bessertec Group	**–**	80 886
Acron	**–**	40 199
Other	**5**	19 903
	228 067	530 861
Equity accounted investments held for sale		
Virtuoso Consulting	**64 175**	–
Bessertec Group	**896**	–
Other**	**7 397**	–
	72 468	–

** Refer to note 6 for further information regarding restatement of the prior year.*

*** Other includes the TTCS Group, Acron and other investments held for sale.*

11. ASSETS HELD FOR SALE

The Group recently refined its operational structure into three distinct reportable segments to allow for leaner and more agile core businesses with separate capital and governance structures. Opportunities are being explored for the sale of certain non-core assets and, as a result, there are a number of businesses that were approved for sale and for which the sale is expected to be completed within 12 months from the reporting date. These businesses are classified as disposal groups held for sale and the assets and liabilities of these disposal groups have been presented as held for sale at 31 July 2019. In addition, Construction Computer Software (CCS) as well as other smaller businesses were disposed of during the period.

The major classes of assets and liabilities of the disposal groups, per reportable segment, classified as held for sale as at 31 July 2019 are as follows:

Figures in Rand thousand	iOCO	NEXTEC	IP	Reviewed for the year ended 31 July 2019
Assets				
Property, plant and equipment	85 122	128 076	4 027	**217 225**
Goodwill and intangible assets	795	358 272	12 853	**371 920**
Equity-accounted investments	72 468	–	–	**72 468**
Other financial assets	–	7 710	(421)	**7 289**
Deferred taxation	261	24 734	2 220	**27 215**
Inventory	4 980	30 166	–	**35 146**
Current taxation receivable	575	2 584	–	**3 159**
Trade and other receivables	99 625	526 698	88 239	**714 562**
Cash and cash equivalents	47 919	221 110	41 344	**310 373**
Assets held for sale	311 745	1 299 350	148 262	**1 759 357**
Liabilities				
Other financial liabilities	(978)	(4 433)	(3 837)	**(9 248)**
Finance lease payables	–	–	(240)	**(240)**
Deferred taxation	(233)	(467)	(1 873)	**(2 573)**
Current taxation payable	330	(11 566)	(2 614)	**(13 850)**
Trade and other payables	(105 586)	(331 133)	(32 222)	**(468 941)**
Deferred income	–	(67 980)	(2 048)	**(70 028)**
Liabilities directly associated with the assets held for sale	(106 467)	(415 579)	(42 834)	**(564 880)**
Net assets directly associated with the disposal groups	205 278	883 771	105 428	**1 194 477**
Cumulative amounts recognised in other comprehensive income				
Foreign currency translation reserve	4 709	2 021	(926)	**5 804**
Impairment loss for write-down to fair value less costs to sell				
Continuing operations – operating expenses	–	(22 172)	–	**(22 172)**
Discontinued operations (note 14)	(135 374)	(450 994)	(41 799)	**(628 167)**
	(135 374)	(473 166)	(41 799)	**(650 339)**

The discontinued operation (GCT Group) was disposed of during the year ended 31 July 2018. As a result, no assets were held for sale at 31 July 2018.

Notes to the condensed consolidated financial statements continued

for the year ended 31 July 2019

12. STATED CAPITAL

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Audited for the year ended 31 July 2018
Opening balance	**3 443 223**	3 333 678
Shares issued for cash*	**713 115**	–
Shares issued as a result of the acquisition of businesses	**48 427**	210 503
Shares issued to the Group share incentive and retention schemes	**1 170**	10 248
Treasury shares	**33 686**	(111 206)
Total	**4 239 621**	3 443 223

* The Lebashe transaction was approved by shareholders on 18 September 2018 and effectively implemented on 1 October 2018. Since the date of approval Lebashe has:

- invested R750 million in three tranches in EOH ordinary shares based on a 30-day VWAP at a 10% discount for an average share price of R33.59; and
- received 40 million unlisted EOH A shares which will be redeemed in five years on 1 October 2023 through an ordinary share issue. The A shares rank equal to an EOH ordinary share in respect of voting rights and each EOH A share will receive cash dividends in an amount equal to the value of 15% of dividends paid by EOH to ordinary shareholders. The remaining 85% of the dividend value will be accrued and redeemed through the redemption of the A shares. The obligation to Lebashe is treated as an equity transaction as the settlement will be undertaken in ordinary shares and the transaction is therefore within the scope of IFRS 2

The related IFRS 2 share-based payment charge of R157 million has been recognised in the statement of profit or loss.

13. DISAGGREGATED REVENUE

Figures in Rand thousand	Reviewed for the year ended 31 July 2019
Revenue by sector	
Public sector	**18%**
Private sector	**82%**
Total	**100%**
Major revenue types	
Software/licence contracts	**357 544**
Hardware sales	**2 060 857**
Managed services	**3 145 623**
Services	**8 391 367**
Hardware maintenance	**91 355**
Software maintenance	**927 938**
Sale of goods – other	**53 449**
Rentals	**287 913**
Other – services	**57 353**
Total	**15 373 399**
Timing of revenue recognition	
Goods or services transferred to customers:	
– at a point in time	**2 471 849**
– over time	**12 901 550**
Total	**15 373 399**
Continuing operations	**11 791 070**
Discontinued operations	**3 582 329**
Total	**15 373 399**

14. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

There were a number of businesses that were approved for sale at 31 July 2019, and for which the sale is expected to be completed within 12 months from the reporting date, as well as businesses that were already sold during the current and previous reporting periods that have met the requirements to be presented as discontinued operations and have accordingly been presented as such.

Judgement was applied in determining whether a component is a discontinued operation by assessing whether it represents a separate major line of business or geographical area of operations or is part of a single plan to dispose of a separate major line of business or geographical area of operations.

The Group's intention to dispose of these non-core assets triggered an initial impairment assessment on the underlying assets at 31 July 2019, and the resulting impairment was allocated to the identified disposal groups (refer to note 8: Goodwill).

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Restated audited~ for the year ended 31 July 2018
Revenue	**3 582 329**	3 768 030
Expenses	**(4 180 645)**	(3 494 790)
Other income	**76 247**	55 636
Profit before tax	**(522 069)**	328 876
Tax expense	**(40 822)**	(66 155)
Remeasurement to fair value less costs to sell	**(628 167)**	–
Gain/(loss) on disposal	**329 603**	(392 450)
Total loss from discontinued operations	**(861 455)**	(129 729)
Attributable to:		
Equity-holders of the parent	**(863 515)**	(129 729)
Non-controlling interest	**2 060**	–
Earnings per share (cents)		
Loss per share from discontinued operations	**(531)**	(90)
Diluted loss per share from discontinued operations	**(531)**	(90)

~ *Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2019.*

14. DISCONTINUED OPERATIONS continued

Reviewed for the year ended to 31 July 2019

Figures in Rand thousand	iOCO*	NEXTEC	IP	Total
Revenue	659 027	2 472 118	451 184	3 582 329
Expenses	(941 112)	(2 726 198)	(513 335)	(4 180 645)
Other income	369	69 747	6 131	76 247
Profit before tax	(281 716)	(184 333)	(56 020)	(522 069)
Tax expense	(2 605)	(45 993)	7 776	(40 822)
Remeasurement to fair value less costs to sell	(135 373)	(450 995)	(41 799)	(628 167)
Gain/(loss) on disposal	109 389	–	220 214	329 603
Total profit or loss from discontinued operations	(310 305)	(681 321)	130 171	(861 455)

* *iOCO discontinued operations include the TTCS Group and other international businesses.*

On 31 July 2019, CCS was sold for proceeds of R444 million, resulting in a gain on disposal of R220 million.

15. CHANGE OF CONTROL IN INVESTMENT IN TTCS

The Group acquired 49% of the TTCS Group ('TTCS') in 2015 and had since been equity-accounting the investment.

TTCS provides system integration, product delivery, maintenance and support services predominantly to customers in Zimbabwe and growing operations in Zambia, Malawi, Kenya, Uganda, Rwanda, Tanzania, Ghana, Botswana and Nigeria, as well as other project delivery in sub-Saharan Africa.

As at 31 July 2018, the Group had the following balances in relation to TTCS:

Equity-accounted investment – R453 million

Other financial assets (loan) – R87 million

Trade and other receivables – R424 million

During the first half of 2019, an error in consideration of the impact of the impairment indicators on the measurement of TTCS Zimbabwe was re-evaluated. The recoverability of trade receivables and loan balances and the expected cash flows were re-evaluated in terms of IAS 39 and the carrying value of the investment in the TTCS Group was re-evaluated, resulting in prior year impairment provisions of R542 million, which was adjusted for as a prior period error, adjusting the opening balances for 2019. Refer to note 6 for further details on the correction of the prior period error.

Obtaining control

The Group gained control of the TTCS Group of Companies on 17 January 2019 as a result of investigations and a settlement between SAP, the Department of Justice in the United States of America and TTCS, with the Board of directors of TTCS being reconstituted to afford EOH 60% of the voting rights. Judgement was applied in assessing whether there was control and the Group was considered to have power over TTCS, exposure or rights to variable returns from its involvement with TTCS and the ability to use its power over TTCS to effect the Group's returns from this date onwards. The direct and effective shareholding in each entity remained unchanged.

Obtaining control required the Group to recognise TTCS as a subsidiary and therefore 'dispose' of its associate at fair value as part of the acquisition of the subsidiary.

As a result of the deemed disposal of the investment in TTCS as an associate, a loss on disposal of R146 million was recognised. This loss was as a result of the Group's reliance on the Zimbabwean operations and the recent and continuing disruptions within Zimbabwe, as well as the impact of changes in local currency.

15. CHANGE OF CONTROL IN INVESTMENT IN TTCS continued

The (loss)/profit for the period from the investment in associate and deemed disposal subsequently is:

Figures in Rand thousand	Five months ended 31 December 2018	Year ended 31 July 2018
Share of (loss)/profit from equity-accounted associate investment	(14 297)	20 589
Non-cash, once-off, accounting loss on deemed disposal of associate*	(146 460)	–
	(160 757)	20 589

** The value of TTCS Group is based on a valuation of the current shareholding and the following key assumptions:*

- *a four-year forecast for the TTCS Group's operations;*
- *a weighted average cost of capital of between 17,0% and 23,6% (depending on the country of operation);*
- *a terminal growth rate of 2,1%; and*
- *discounts of 10% to 30% for a lack of marketability and the current illiquid nature of the investments which increased significantly as a result of the recent deterioration in local currency, as recognised through the Old Mutual Implied Rate.*

The businesses were valued at approximately R64 million at 31 December 2018. Conservatively, as a result of the continuing uncertainty regarding Zimbabwe and the new currency, management's expectation was that dividends were not likely to be paid in the medium to long term. Therefore, when calculating goodwill and the loss on disposal, an enterprise value of Rnil has been used.

The subsequent deemed acquisition of TTCS as a subsidiary impacted the Group as follows:

Figures in Rand thousand	31 December 2018**
Fair value of assets and liabilities acquired	
Non-current assets	37 058
Current assets	48 590
Current liabilities (including minority portion of EOH payables)***	(387 346)
Net liabilities acquired	(301 698)
Non-controlling interests measured at their share of the fair value of the net assets/value of TTCS (including minority portion of EOH payables)***	300 448
Amount capitalised	(1 250)
Goodwill	70 877
Goodwill impairment	(70 877)
Net cash outflow*	(1 250)

* *Given the nature of the acquisition, there is no additional consideration payable.*

** *The fair value of the assets and liabilities acquired has been translated to ZAR based on an Old Mutual Implied Rate of 2.79 at 31 December 2018 for TTCS Zimbabwe, resulting in a negative net asset value as the majority of the loans and trade payables are denominated in foreign currencies, while current assets are predominantly USD RTGS-based. The loans of R86 million and trade payables of R480 million payable to EOH at 31 December 2018 are included in current liabilities and have been eliminated against trade receivables and loans on consolidation.*

*** *Minority portion of EOH payables are eliminated on consolidation.*

15. CHANGE OF CONTROL IN INVESTMENT IN TTCS continued

Figures in Rand thousand	2019
Loss after tax contribution to trading results for the period	**(9 557)**
Contribution had the effective date of obtaining control been 1 August 2018	**(16 155)**

There were no acquisition-related costs during the period included in operating expenses in the statement of profit or loss.

The contribution to the trading results of the TTCS Group have been accounted for from the effective date of the business combination. The accounting of these subsidiaries is based on best estimates and fair values.

Loss of control

A Sale of Shares Agreement (SSA) was entered into between the Group and the previous shareholder, whereby the Group will sell its entire 49% shareholding to the previous shareholder, with the risk and benefit of the 49% shareholding passing with effect from 1 May 2019. From 1 May 2019, the Group no longer has any board representation at TTCS and does not have the ability to appoint any board members. The Group effectively lost control over TTCS on 1 May 2019.

The SSA contained three suspensive conditions for the sale and purchase to be completed and as at 31 July 2019, one of the suspensive conditions, being the relevant exchange control approval from the Reserve Bank of Zimbabwe, was not received. As the sale was not yet concluded at the reporting date, the retained investment was classified as held for sale (refer to note 11).

The Group accounts for the investment retained in TTCS upon loss of control, as an investment in associate under IAS 28.

According to IFRS 10, when a parent loses control of a subsidiary, it must recognise any investment retained in the former subsidiary at its fair value at the date when control is lost. The fair value of the retained investment is Rnil.

The results of TTCS for the current period as well as the prior period are shown as discontinued operations (refer to note 14).

The Group realised an accounting profit on loss of control of R125 million. Loans owing by TTCS to the Group were waived and the Group has a SAP settlement liability of R46 million on behalf of the TTCS Group.

16. FINANCIAL INSTRUMENTS

The following table summarises the carrying amount of financial instruments included in other financial assets and other financial liabilities:

Other financial assets

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Restated audited* for the year ended 31 July 2018
Financial assets		
Financial assets at fair value through profit or loss	**28 332**	138 788
Debt instrument at amortised cost	**67 285**	565 944
Classification as assets held for sale	**(7 289)**	–
	88 328	704 732

* *Refer to note 6 for further information regarding the restatement of the prior year.*

Financial assets at fair value through profit or loss

Other financial assets (level 3) relate to non-controlling interests in unlisted businesses and a cell captive. The valuation of the unlisted business is based on a discounted cash flow model which has been adjusted for risk inherent in the investees' nature of operations and the cell captive is valued based on the net asset value reported by the service provider. At 31 July 2019 the carrying value of the level 3 financial assets, based on the directors' evaluation, is R28.3 million (31 July 2018: R49.8 million).

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Restated audited* for the year ended 31 July 2018
Financial assets at fair value through profit or loss		
– level 1	**–**	89 010
– level 3	**28 332**	49 768
	28 332	138 788
Reconciliation of movement:		
Balance at the beginning of the period	**49 768**	39 462
Transfer from loans and receivables	**(13 540)**	5 774
Additions	**870**	–
Net changes in fair value	**(8 766)**	4 532
Balance at the end of the period	**28 332**	49 768

16. FINANCIAL INSTRUMENTS continued

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Audited for the year ended 31 July 2018
Other financial liabilities		
Interest-bearing liabilities	**2 980 602**	3 404 595
Non-interest-bearing liabilities	**352 604**	699 401
Liabilities directly associated with the assets held for sale	**(9 249)**	–
	3 323 957	4 103 996

Financial liabilities measured at fair value through profit or loss, in terms of the hierarchy, are classified as level 3 as the valuation techniques used are based on unobservable inputs for the liability.

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Audited for the year ended 31 July 2018
Fair value through profit or loss:		
Vendors for acquisition – level 3	**303 313**	633 709
	303 313	633 709

Vendors for acquisition

The balance in respect of vendors for acquisition relates to the contingent consideration where business combinations are subject to profit warranties. The profit warranties allow for a defined adjusted value to the consideration payable in the event that the warranted profit after tax is not achieved, or in the event that it is exceeded, an agreed sharing in the surplus. The fair value of the contingent arrangement is initially estimated by applying the income approach assuming that the relevant profit warrant will be achieved. Subsequent measurement uses the income approach to calculate the present value of the expected settlement payment using the latest approved budgeted results and reasonable growth rates for the remainder of the relevant warranty periods taking into account any specific circumstances.

Profit warrant periods normally extend over a 24-month period.

Upwardly revised performance expectations would result in an increase in the related liability, limited to the terms of the applicable purchase agreement.

Unobservable inputs include budgeted results based on margins and revenue growth rates historically achieved by the various segments. Changing such inputs to reflect reasonably possible alternative assumptions does not significantly change the fair value of the vendors for acquisition liability.

The EOH Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that reports directly to the Group Chief Financial Officer who oversees all significant fair value measurements.

16. FINANCIAL INSTRUMENTS continued

Vendors for acquisition continued

Figures in Rand thousand	**Reviewed for the year ended 31 July 2019**	Audited for the year ended 31 July 2018
Reconciliation of movement:		
Balance at the beginning of the period	**633 709**	1 167 453
Raised through business combinations	**–**	153 695
Acquisitions of remaining non-controlling interests	**–**	67 839
Discharged to vendors	**(366 413)**	(730 677)
Foreign exchange effects	**2 818**	(20 071)
Net changes in fair value	**33 199**	(4 530)
Balance at the end of the period	**303 313**	633 709

The Group does not have any financial instruments that are subject to offsetting.

All short-term receivables and payables carrying amounts approximate their fair values due to their short-term nature.

There have been no transfers between levels of the fair value hierarchy.

Non-recurring fair value measurements

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The fair values were determined based on sales agreements that are in place for each of the disposal groups that are held for sale. The total of such fair values is R856 million. The discounted cash flow method (DCF) is used to determine their values, when the sales amount from the sale agreements was discounted using the adjusted weighted average cost of capital specific to that cash-generating unit (CGU). These fair values are categorised as level 3, based on inputs used.

17. CONTINGENCIES AND COMMITMENTS

Commitments

The Group has issued guarantees and performance bonds from various Group companies as well as through available third-party facilities. At this stage, the Group is not aware of any guarantees or bonds issued which may be exercised by holders. The balance at 31 July 2019 was R358 million (2018: R305 million).

18. EVENTS AFTER REPORTING DATE

Continued disposal of non-core assets

The Group is considering disposing of certain businesses. To date, six agreements have been reached for the sale of a number of businesses that are classified as held for sale at 31 July 2019 for an estimated total consideration of R18 million.

There have also been two businesses that have been classified as held for sale subsequent to year end.

Various disposal processes are expected to be realised, but have not met the criteria to be recognised as assets held for sale by 31 July 2019.

Lebashe investment

On 11 October 2019, EOH shareholders were advised that Lebashe had formally notified EOH of its intention not to subscribe for the R250 million third tranche of the subscription undertaking. Lebashe took a conscious decision to allow EOH to establish a new independent Board of directors (New Board) without representation from Lebashe until after the conclusion of the ENSafrica investigation and the determination of the impact thereof.

Accordingly, EOH is, at any time after 1 October 2019, at its discretion, entitled to:
(i) require the forfeiture of dividends on 10 000 000 EOH A shares to EOH; and
(ii) redeem 10 000 000 EOH A shares for R1,00.

While the current economic dilution of the 10 000 000 EOH A shares is limited, the EOH A shares each have the same voting rights as an EOH ordinary share and are therefore an important consideration in the deliberations of the New Board. Further announcements will be made as soon as a decision has been made by the New Board.

Notwithstanding the decision taken by Lebashe not to subscribe for the third tranche in accordance with the transaction terms, the investment and strategic relationship with EOH remains important to Lebashe and Lebashe has committed to still providing the last tranche of funding originally committed to as part of the transaction subject to agreeing to mutually acceptable terms and EOH's shareholder approval, if required. Discussions between Lebashe and the New Board are ongoing with a view to finding a solution that is in the best interests of all capital providers.

Debt reduction plan

We have renegotiated payment terms with our lenders, which will accelerate the deleveraging of our balance sheet in an orderly manner, from sales proceeds. This has resulted in R750 million being classified as short-term liabilities in the financial statements.

Corporate information

EOH Holdings Limited

Incorporated in the Republic of South Africa
Registration number: 1998/014669/06
JSE share code: EOH
ISIN code: ZAE000071072

Directorate

Non-executive

Xolani Mkhwanazi (Chairman) *(appointed effective 5 June 2019)*
Moretlo Molefi
Ismail Mamoojee
Jesmane Boggenpoel
Anushka Bogdanov *(appointed effective 20 June 2019)*
Andrew Mthembu *(appointed effective 20 June 2019)*
Mike Bosman *(appointed effective 20 June 2019)*
Pumeza Bam *(resigned 15 July 2019)*
Asher Bohbot *(resigned as Chairman effective 28 February 2019)*
Rob Sporen* *(resigned as Lead Non-executive Director effective 28 February 2019)*
Tshilidzi Marwala *(resigned effective 28 February 2019)*
** Dutch*

Executive

Stephen van Coller *(appointed as Director and Group Chief Executive Officer effective 1 September 2018)*
Megan Pydigadu *(appointed as Director and Group Chief Financial Officer effective 15 January 2019)*
Fatima Newman *(appointed as Director and Group Chief Risk Officer effective 1 August 2019)*
Zunaid Mayet *(resigned effective 15 July 2019)*
Zunaid Mayet *(resigned as Group Executive Officer effective 31 August 2018)*
John King *(resigned as Group Financial Director effective 3 October 2018)*
Tebogo Maenetja *(resigned effective 31 March 2019)*

Group Company Secretary

EOH Secretarial Services (Pty) Ltd
represented by Neill O'Brien *(appointed 15 June 2019)*
Adri Els *(resigned 14 June 2019)*

Registered address

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PO Box 59, Bruma, 2026 • Telephone: +27 (0) 11 607 8100
Website: www.eoh.co.za • Investor email: debbie.millar@eoh.com

Sponsor

Java Capital Trustees and Sponsors (Pty) Ltd
Registration number: 2006/005780/07
6A Sandown Valley Crescent, Sandton, 2132, Johannesburg
PO Box 522606, Saxonwold, 2132

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Registration number: 2004/003647/07
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107

Auditors

Mazars
Mazars House, 54 Glenhove Road, Melrose Estate, Johannesburg, 2196, South Africa

15 October 2019

Registered address

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www.eoh.co.za