ETION

(Registration number 1987/001222/06)

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2020

2020

Advancing Humanity Through Technology

General **information**

Directors	T Daka CP Bester Dr SJ Khoza EC De Kock CF Maherry M Janse van Rensburg R Willis
Company registration number	1987/001222/06
Registered office	85 Regency Drive Route 21 Corporate Park Irene X21 1667
Postal address	PO Box 95361 Waterkloof Gauteng 0145
Auditors	PricewaterhouseCoopers Inc 4 Lisbon Lane Waterfall City Jukskei View 2090
Level of assurance	These annual consolidated financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Bankers	Nedbank Limited Standard Bank of South Africa ABSA Bank
Country of incorporation and domicile	South Africa
Preparer	The annual consolidated financial statements were internally compiled by: N Naidoo CA(SA)
Reviewed by	EC De Kock FCMA MBA
Issued	13 August 2020
Secretary	W Modisapodi – Appointed 1 November 2019 Fusion Corporate Secretarial Services (Pty) Ltd – Resigned 30 October 2019

Contents

Audit Committee **report**

ROLE AND RESPONSIBILITY

In addition to its Companies Act statutory duties, the Audit and Risk Committee (ARC) provides oversight of the effectiveness of internal financial controls and systems of internal controls. This assists the Board in monitoring the integrity of the Company's Separate Annual Financial Statements and Group's Annual Consolidated Financial Statements and related external reports.

The committee oversees the Company's external assurance functions and services that contribute to ensuring the integrity of the Group's financial and integrated reporting. The ARC has oversight of the Company's effective risk management, reviews the expertise, resources and experience of the finance function and evaluates the suitability of the expertise and experience of the Group Chief Financial Officer.

In addition to the committee members, the Group Chief Executive Officer, Group Chief Financial Officer, the Designated Advisor and external auditor attend committee meetings by invitation.

1. Members of the Audit Committee

Martie Janse van Rensburg	Chairperson
Snowy Khoza	
Coen Bester	
Richard Willis	

2. Focus areas for FY 2020

- Reviewed the appropriateness of its terms of reference.
- Approved its annual workplan.
- Considered the latest recommendations in the *Report on the Proactive Monitoring of Financial Statements for Compliance with IFRS* issued by the JSE.
- Evaluated the impacts of financial adjustments to the Nedbank loan covenants and satisfied itself with the co-operation between management and the bank to rectify breached covenants.
- Assessed executive management's proposal on the restructure of Etion Digitise under various scenarios and the associated Transfer Policy, should Digitise capability be combined with Etion Create.
- Evaluated the Group's foreign currency risk exposure and the appropriateness of a Foreign Exchange Risk Policy.
- Interrogated the Group's FY2021 budget, including the budgets for Etion Create, Etion Digitise, Etion Connect and Etion Secure.
- Reviewed and considered the Group risk register for completeness.
- Noted the latest changes in IFRS and JSE Listings Requirements.
- Reviewed and approved Etion Limited's ability to recover its deferred tax asset and included the relevant disclosure supporting this judgement in the Etion Group's Annual Financial Statements for the year ended 31 March 2020.

3. Focus areas for FY 2021

- Manage the sustainability risk to the Group created by the COVID-19 pandemic.
- Monitor liquidity and solvency adequacy on an ongoing basis.
- Ensure risk management processes remain appropriate and responsive to changes in the Group.
- Monitor the progress in financial reporting process enhancements.
- Finalise and monitor the implementation of Group IT Governance reporting.
- Continuous monitoring of milestones developed within the Etion Connect turnaround strategy.
- Implementation of project plan to achieve compliance with JSE regulation 3.84 (k).

4. Meetings held

The ARC held 3 (three) scheduled meetings during 2020 and all members attended all 3 meetings.

5. ARC report

During the year under review, ARC satisfied itself that:

- The Company and Group has appropriate financial reporting procedures in place and that those procedures are operating

- The external auditor was independent, as set out in section 94 (8) of the Companies Act. The independence of the external auditors is regularly reviewed as prescribed by the Independent Regulatory Board of Auditors (IRBA). The requisite assurance was provided by the external auditor to support and demonstrate its claim to independence.
- It had reviewed and approved the external audit plan, including the proposed scope and audit fee and determined the nature and scope of non-audit services. All non-audit related services are governed by an appropriate approval framework. No non-audit related services were provided during the year.

Overall, the committee is satisfied with the quality of the external audit for the year. The committee:

- Considered the tenure of PricewaterhouseCoopers Inc (PwC) of five years as the external auditors of the Group as well as the tenure of five years of Ms P Pope as the designated lead partner and the potential impact thereof on the independence of the firm.
- Assessed the suitability of the re-appointment of PwC and the designated individual partner, by considering the information provided by PwC as required per paragraph 22.15 (h) of the JSE Listing Requirements.
- Evaluated the integrated annual report, separate Annual Financial Statements and annual consolidated financial statements, and was satisfied with the application of the accounting policies, practises, judgements and estimates adopted in their preparation.
- After review, and in consultation with management, agreed to recommend to the Board for approval at the Annual General Meeting (AGM) the re-appointment of PwC as the external auditors for the 2021 financial year.
- The committee has assessed the appropriateness of the resources of the Group's finance function and the experience of the senior members of management responsible for the finance function, and was satisfied with it. The committee has assessed the appropriateness of the Group Chief Financial Officer's experience and expertise and is satisfied with it.
- Considered 2019 JSE report on proactive monitoring, issued 18 February 2020, the IFRS 9/15 Thematic Report 2019, the Activities of the FRIP in 2019; and extracts from the Combined Findings Report and has taken the appropriate action to apply findings as highlighted in the JSE report when preparing the Separate Annual Financial Statements and Consolidated Annual Financial Statements for the year ended 31 March 2020.

The ARC has evaluated the integrated report and Separate Annual Financial Statements and Consolidated Annual Financial Statements for the year ended 31 March 2020 and considers that it complies, in all material respects, with the requirements of the Companies Act and IFRS, and that the adoption of the going concern basis in preparing the financial statements is appropriate. The committee is of the opinion that the audited separate Annual Financial Statements and consolidated Annual Financial Statements should be accepted and read together with the report of the independent external auditor.

6. IT governance

The ARC provides oversight over the IT systems and related controls within Etion's operating environment. The ARC approved the Group-wide IT Policy during FY2020.

7. Other governance matters

Dealings in securities

The Dealing in Securities Policy prohibits directors and senior employees from trading in securities during closed periods, or self-imposed embargo periods. Embargo and closed periods are in effect from 1 October until the publication of the interim results, and 1 April until the publication of year-end results. Closed periods include any period where the Group is trading under a cautionary announcement.

Compliance with policies is monitored on an ongoing basis and any breaches are dealt with according to the provisions of the policy and the JSE Listings Requirements. All directors are required to obtain clearance from the Board Chairperson to trade in securities. The Chairperson is required to obtain clearance from the ARC Chairperson.

During the reporting period, the Group complied with the Listings Requirements and disclosure requirements of the JSE.

Company Secretary

Fusion Corporate Secretarial Services (Pty) Limited was the appointed Company Secretary until their term of office ended on 31 October 2019. Wyna Modisapodi was appointed Company Secretary with effect from 1 November 2019. The primary role of the Company Secretary is to ensure the Board is cognisant and aware of its fiduciary duties and responsibilities. The Company Secretary plays a key role in keeping the Board aware of relevant changes in legislation and governance best practice. Other key performance areas of the Company Secretary include overseeing the induction of new directors and the ongoing education of directors, and acting as secretary to the Board committees. The Board has unfettered access to the services of the Company Secretary.

The Board confirms that the Company Secretary:

- Maintained an arm's length relationship with the Board and the directors, noting that the Company Secretary is not a director of the Company and is not related to any of the directors
- Is independent from management and does not have executive duties and responsibilities, aside from the core responsibilities of a company secretary
- Is not a shareholder of Etion and is not party to any major contractual relationship with Etion

The certificate that the Company is required to issue in terms of section 88(2)(e) of the Companies Act is on page 5 of the Annual Financial Statements.

Annual compliance certificate

The annual compliance certificate confirming the Company's compliance with the JSE Listings Requirements was completed and submitted to the JSE on 24 August 2020.

Sponsor

Etion understands the role and responsibilities of the sponsor as stipulated in the JSE Listings Requirements and has cultivated a good working relationship with its sponsor, Exchange Sponsors (2008) (Pty) Ltd. The Company is satisfied that the sponsor has executed its mandate with due care and diligence during the year under review.

Martie Janse van Rensburg
Chairman Audit Committee

Directors' responsibilities and approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual consolidated financial statements and related financial information included in this report. It is their responsibility to ensure that the annual consolidated financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual consolidated financial statements.

The annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual consolidated financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the year to 31 March 2021 and, in light of this review and the current financial position, they are satisfied that the Group has, or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Group's annual consolidated financial statements. The annual consolidated financial statements have been examined by the Group's external auditors and their report is presented on pages 10 to 14.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders and Board of Directors. The Board of Directors believes that all representations made to the independent auditors during their audit are valid and appropriate.

The annual consolidated financial statements set out on pages 6 to 88, which have been prepared on the going concern basis, were approved by the Board of Directors on 13 August 2020 and were signed on their behalf by:

T Daka

EC De Kock

Certificate from the **Company Secretary**

I certify that, to the best of my knowledge, in accordance with the Companies Act, 2008 (as amended) (the Act), Etion has lodged with the Registrar all returns as are required of a public company in terms of section 88 (2)(e) of the Act, for the year ended 31 March 2020 and, furthermore, that all such returns and notices are to the best of my knowledge and belief, true, correct and up to date.

Wyna Modisapodi
Company Secretary
Pretoria

Directors' report

The directors present the annual report, which forms part of the annual consolidated financial statements of the Group for the year ended 31 March 2020.

1. NATURE OF BUSINESS

Etion Limited is a diversified digital technology provider. Our purpose is to advance humanity by improving the safety, productivity, connectivity and cyber security of our customers. The Group creates digital solutions and products, digitalises business operations and processes, connects people, entities, systems and things, and secures identities, information and transactions in the cyber arena.

The Group creates value by designing and manufacturing custom-designed and generic solutions, by acting as a distributor and a systems integrator of technology-based products, by operating an internationally recognised Trust Centre and developing software solutions for the global market.

2. REVIEW OF ACTIVITIES

The Group operates principally in South Africa.

The Group develops, produces, distributes and integrates niche world class technology-driven engineering solutions for harsh environments within our market segments. Refer to note 39 for further information on the market segments of the Group.

The operating results and state of affairs of the Group are fully set out in the attached financial statements. Operating conditions in Etion's primary domestic markets worsened during the current financial year, with significant once-off operating costs being incurred following the strategic reorganisation of the Safety and Productivity Solutions and Digital Network Solutions businesses. This included the write down of inventory, write down and impairment of intangible assets and retrenchments costs totalling R51.811 million. Loss of the Group was R36.128 million (2019: R2.730 million), after taxation income of R6.862 million (2019: expense of R3.359 million).

3. SHARE CAPITAL

The Company's authorised share capital remained unchanged at 1 725 490 496 shares (2019: unchanged). There has been no change to the issued share capital.

4. DIVIDENDS

No dividends were declared or paid to the shareholders during the year (2019: none).

5. BORROWING LIMITATIONS

In terms of the Memorandum of Incorporation of the Company, the directors may exercise all the powers of the Company to borrow money, as they consider appropriate.

6. GOING CONCERN

On 30 January 2020, the World Health Organization announced the outbreak of COVID-19 as a world health emergency of international concern, and on 11 March 2020 the outbreak was classified as a global pandemic. In South Africa, a National State of Disaster was declared in response to the pandemic, which created restrictions on travel and mass gatherings among other things in the country. A national lockdown was enforced from 26 March 2020, until 17 April 2020 and was subsequently extended on 9 April 2020, to come to an end on 30 April 2020. On 23 April 2020, further measures were announced which would allow for the gradual re-opening of the South African economy in stages from 1 May 2020. The impact of the gradual reopening has been different based on the sector and area in which businesses operate, and the spread of the outbreak post 1 May 2020. The outbreak of COVID-19 and the subsequent measures imposed by various governments in an attempt to contain the spread of the virus, including travel and trade restrictions, social distancing measures and enforced lockdowns have caused disruption to businesses and economic activity in the country.

The Group early-on implemented work-from-home policies and travel restrictions for its employees to help protect the health of its employees and those around them. For those employees directly serving customers, the Group has implemented measures designed to safeguard both employees and its customers. The Group continues to respond to the developing situation, adhering to official guidance and applicable law and regulation to limit the potential spread of COVID-19.

As the full impact of the COVID-19 pandemic takes effect around the world, the Board and Group management teams are facing unprecedented challenges and uncertainty. Now, more than ever, those charged with governance need to ensure that the right issues and concerns about the impact of COVID-19 on the operations and outlook for their organisations are addressed. The Board undertakes regular rigorous assessment of whether the Group is a going concern in light of current economic conditions and available information about future risks and uncertainties.

Projections for the Group have been prepared, covering its future performance, capital and liquidity for a period of 12 months from reporting date including performing sensitivity analyses. These analyses have been updated to include the ongoing developments related to the COVID-19 pandemic. These pandemic scenarios continue to evolve as the effects of the pandemic continue to extend. Refer to note 36 for further information in respect to the sensitivity analyses performed by management.

The directors have reviewed the Group's projections of its current and expected profitability, sensitivity analyses and related cash flow forecasts for the year ending March 2021 which confirm that the Group has sufficient capital, liquidity and a positive future performance outlook to continue to meet its short term obligations. On this basis and in light of the Group's current financial position, the directors are satisfied that the Group will continue to operate for the foreseeable future, even when considering the severe impacts of the COVID-19 pandemic, and have therefore adopted the going concern basis in preparing these annual consolidated financial statements.

7. MATERIAL EVENTS AFTER YEAR-END

We are continually monitoring the COVID-19 outbreak and developments closely. The Group follows guidance from the World Health Organization and abides by the requirements as activated by local governments. Contingency plans have been implemented as far as possible to mitigate the potential adverse impact on the Group's employees and operations.

This impact of the pandemic has had a negative impact on the operations of the Group after year-end. The Group ceased its manufacturing activities within Etion Create with effect from 26 March 2020 due to mandatory government quarantine measures to contain the spread of the pandemic. Even though the Etion Create resumed its manufacturing activities on 24 April 2020, they are still not operating at normal capacity due to the occupational health and safety protocols to be maintained as prescribed by the government. Etion Digitise resumed operations from 1 June 2020, following the implementation of Lockdown Level 3.

While Etion Connect was successful in securing an essential services certification throughout the duration of the lockdown period, reduced customer demand and the marked contraction of the economy exacerbated by the COVID-19 pandemic has led to a marked deterioration in forecast revenue for the 2021 financial year and resultant decrease in profitability. As a proactive step, management has initiated the strategic review of the digital network solutions business to explore the opportunity, to implement a reorganisation of Etion Connect business with the objective of ensuring the long term sustainability and profitability of the business.

In contrast to the abovementioned businesses, LAWTrust has benefited from the COVID-19 pandemic with increased demand for its Digital Signing solutions. LAWTrust continued to operate throughout the lockdown, having been identified as an essential supplier by the Department of Home Affairs and the financial services sector. Furthermore, with the mass digitalisation of all many businesses driven by the COVID-19 pandemic, management foresees an uptick in interest for LAWTrust's cyber security product offerings.

As the events arising as a result of the government interventions in response to COVID-19 pandemic occurred before the reporting date with continued impacts after the reporting date, the Group considers this to be an adjusting post balance sheet event and accordingly the financial effects resulting from the impact of COVID-19 are reflected in the Group's financial statements at 31 March 2020. Refer to note 42 for further information.

Christi Maherry resigned as an executive director to the Board of Etion with effect from 30 August 2020.

With the exception of the preceding matters, there are no other events which are material to the financial affairs of the Group.

8. DIRECTORS' INTEREST IN STATED CAPITAL AND CONTRACTS

At 31 March 2020, the directors in aggregate, were directly or indirectly beneficially interested in 185 681 109 ordinary shares (2019:189 743 079), equivalent to 32.94% (2019: 33.62%) of the issued ordinary shares of Etion Limited. The directors' interest in the ordinary issued share capital of the Company as at 31 March 2020, is set out in the following table:

Number of shares held beneficially

Directors	2020 Direct	2020 Indirect	2019 Direct	2019 Indirect
Executive				
T Daka	**45 062 745**	**102 674 375**	45 062 745	102 674 375
CF Maherry	**16 686 356**	**–**	16 686 356	–
Non-executive				
NS Mjoli-Mncube	**–**	**–**	220 877	4 000 000
CP Bester	**–**	**19 708 291**	–	19 708 291
R Willis	**–**	**1 549 342**	–	1 390 435
	61 749 101	**123 932 008**	61 969 978	127 773 101

There has been no change in the directors' interest in the ordinary issued share capital between the end of the financial year and the date of approval of the annual consolidated financial statements.

9. DIRECTORS

The directors of the Company during the period and at the date of this report are as follows:

Directors	Designation	Changes
T Daka	Executive	
EC De Kock	Executive	
CF Maherry	Executive	Resigned, effective 31 August 2020
NS Mjoli-Mncube	Non-executive	Resigned, 31 May 2019
CP Bester	Non-executive	
Dr SJ Khoza	Non-executive	
M Janse van Rensburg	Non-executive	
R Willis	Non-executive	

Directors' remuneration

Details of directors' remuneration are set out in note 33 to the annual consolidated financial statements.

Directors' and prescribed officers' interests in contracts

No material contracts in which directors and prescribed officers' have an interest were entered into in the current financial year (2019: none).

10. SECRETARY

The Group's designated Company secretary is Mrs Wyna Modisapodi, situated at 85 Regency Drive, Route 21 Corporate Park, Irene, Pretoria.

11. LIQUIDITY AND SOLVENCY

The directors have performed the required liquidity and solvency tests required by the Companies Act of South Africa.

12. AUDITORS

PricewaterhouseCoopers Inc. were appointed as auditors for the Company during the past financial year. At the Annual General Meeting, the shareholders will be requested to reappoint PricewaterhouseCoopers Inc. as the independent external auditors of the Company and to confirm Herman Eksteen as the designated lead audit partner for the 2021 financial year.

13. SPECIAL RESOLUTIONS

The following special resolutions were passed on 26 September 2019 at the Annual General Meeting:

- Remuneration of non-executive directors;
- Remuneration for ad hoc board committees;
- Inter-Company financial assistance;
- Financial assistance for subscription/or acquisition of shares in the Company or a related or inter-related Company;
- General authority to repurchase shares.

14. COMPANY FINANCIAL STATEMENTS

The Separate Annual Financial Statements of the Company, Etion Limited, are available on the Company's website: www.etion.co.za.

Independent **auditor's report**

To the Shareholders of Etion Limited

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Etion Limited and its subsidiaries (together the Group) as at 31 March 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Etion Limited's consolidated financial statements set out on pages 15 to 88 comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

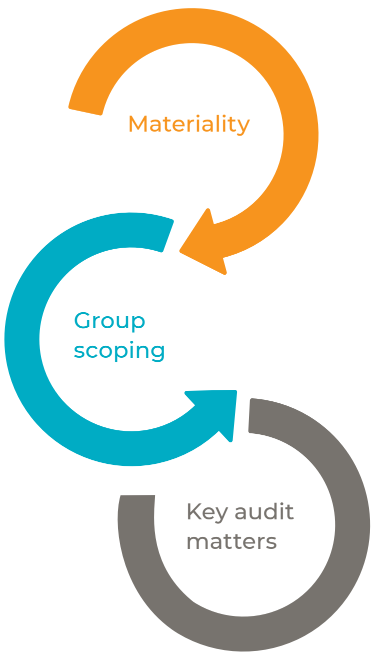
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018),* parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

Our audit approach

Overview



Overall group materiality

- Overall group materiality: R5 728 890, which represents 1% of total consolidated revenue.

Group audit scope

- We performed full scope audits on Etion Limited and its significant components. Independent reviews were performed on those components that were deemed inconsequential.

Key audit matters

- Goodwill impairment assessment

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R5 728 890
How we determined it	1% of total consolidated revenue
Rationale for the materiality benchmark applied	We chose revenue as the benchmark due to the volatility of profit/losses for the last few years and because, in our view, it is a key performance indicator of the Group in reaching their short- and medium-term business objectives. We chose 1%, which is consistent with quantitative materiality thresholds used for profit-orientated companies in this sector.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The consolidated financial statements are a consolidation of eight companies of which four were considered financially significant based on their contribution to consolidated revenue. We have performed full scope audits on these companies due to their financial significance. Independent reviews were performed on the four that were deemed to be financially inconsequential. All of these companies were audited/independently reviewed by the group engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment Due to the business acquisitions made by the Group in the prior years, the Group's net assets include a significant amount of goodwill (R124 million) as at 31 March 2020. Detail regarding this has been disclosed in Note 8 (Intangible assets) to the consolidated financial statements. Management determined the recoverable amounts of the CGUs using the "value-in-use model" in accordance with IAS 36 *Impairment of Assets* and allocated goodwill to cash generating units within the Group. This entailed calculating the discounted cash flows for each of the individual CGUs. Significant estimates and judgements were applied by management in performing these calculations. The key assumptions applied in the valuation models are as follows: – Gross margin percentage; – Growth rate; – Discount rate; and – Terminal growth rate. A sensitivity analysis was performed by management over the value-in-use calculation by varying the gross margin percentage and discount rate. Impairment charge of R25.1 million was recognised against goodwill. We considered the impairment assessment of goodwill to be a matter of most significance to the current year audit due to: – The significant judgements made by management regarding the assumptions and other forecasts, including the impact of COVID-19, applied in the determination of the recoverable amount of the CGUs; and – The magnitude of the goodwill balance in relation to the total consolidated assets and the impairment loss in relation to the consolidated total comprehensive loss for the year.	Making use of our valuation expertise, we performed the following audit procedures to test the impairment assessments performed on CGUs: – We evaluated whether the value-in-use methodology used by management is an appropriate valuation methodology applied in the circumstances. Based on our work performed, we accepted that the valuation methodology is consistent with market practice; – We assessed management's budgeting process by comparing the budgeted figures for the 2020 financial years to actual results; – We independently calculated the discount rate (weighted average cost of capital), taking into account independently obtained data such as the cost of debt, risk free rates in the market, market risk premiums, specific risk premium, debt/equity ratios as well as the beta of comparable companies. Based on the work that we performed, we accepted the rates used by management; – We tested management's key assumptions applied for gross margin percentage by evaluating revenue and cost of sales, by comparing them to the historical average revenue growth rate and gross profit for the 2016 to 2019 financial years. We assessed the reasonableness of the economic stresses used by management in estimating the impact of COVID-19 with reference to historic information, current performance and approved COVD-19 adjusted budgets. Based on the work that we performed, we accepted the assumptions; – We tested management's cash flow forecast by comparing the inputs in the forecast to management's budget and order books for the forecasted period. Management's inputs agreed to the budget; – Performed sensitivity analyses to assess the sensitivity of the valuation based on changes in the assumptions relating to the discount rate and gross margin and revenue growth rates. We found that the value was within our expected range of values determined; and – We independently recalculated value-in-use based on the assumptions tested above and compared this to the carrying value and no impairments were noted for the CGUs other than DNS CGU. We recalculated the value-in-use in respect of the DNS CGU and noted no material differences.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Etion Limited Annual consolidated financial statements for the year ended 31 March 2020", in the document titled "Etion Limited Separate Annual Financial Statements for the year ended 31 March 2020", which includes the Directors' Report, the Audit Committee Report and the Certificate from the Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and in the document titled "Etion Limited Integrated Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Etion Limited for five years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: P Pope
Registered Auditor

Johannesburg
13 August 2020

Statement of **financial position**

as at 31 March 2020

	Note(s)	2020 R'000	2019 R'000
Assets			
Non-current assets			
Property, plant and equipment	6	**43 339**	48 455
Right-of-use assets	7	**27 982**	–
Intangible assets	8	**155 304**	191 421
Investment in joint venture	9	**240**	–
Deferred tax	10	**36 001**	20 945
Other financial asset	11	**975**	1 010
		263 841	261 831
Current assets			
Inventories	12	**55 341**	87 549
Loans to related company	13	**2 304**	2 330
Trade and other receivables	14	**118 458**	163 630
Contract assets	19	**17 991**	18 927
Current tax receivable		**9 469**	7 566
Cash and cash equivalents	15	**82 678**	50 611
		286 241	330 613
Total assets		**550 082**	592 444
Equity and liabilities			
Equity			
Share capital	16	**259 541**	259 541
Retained income		**49 086**	83 754
		308 627	343 295
Liabilities			
Non-current liabilities			
Interest-bearing borrowings	17	**51 585**	32 968
Contract liabilities	19	**355**	274
Deferred tax	10	**5 794**	9 300
Lease liabilities	7	**25 698**	–
		83 432	42 542
Current liabilities			
Trade and other payables	18	**116 429**	132 174
Interest-bearing borrowings	17	**13 408**	43 522
Contract liabilities	19	**16 231**	14 918
Current tax payable		**4 761**	970
Provisions	20	**2 600**	1 890
Lease liabilities	7	**4 522**	–
Bank overdraft	15	**72**	13 133
		158 023	206 607
Total liabilities		**241 455**	249 149
Total equity and liabilities		**550 082**	592 444

Statement of **profit or loss** and **other comprehensive income**

	Note(s)	2020 R'000	Restated 2019 R'000
Revenue	22	**572 889**	595 939
Cost of sales	23, 27	**(379 749)**	(415 326)
Gross profit		**193 140**	180 613
Other operating income	24	**5 124**	4 877
Other operating losses	25	**(6 269)**	(8 956)
Movement in credit loss allowances	26	**(10 258)**	(2 917)
Other operating expenses	27	**(216 460)**	(163 443)
Operating (loss) profit		**(34 723)**	10 174
Finance income	29	**2 718**	1 717
Finance costs	30	**(11 225)**	(11 261)
Income from equity accounted investment		**240**	–
(Loss) profit before taxation		**(42 990)**	630
Taxation	31	**6 862**	(3 359)
Loss for the year		**(36 128)**	(2 729)
Other comprehensive income		**–**	–
Total comprehensive loss for the year		**(36 128)**	(2 729)
Loss per share			
Per share information			
Basic and diluted loss per share (cents)	34	**(6.40)**	(0.53)

Statement of **changes in equity**

	Share capital R'000	Retained income R'000	Total equity R'000
Balance at 1 April 2018	212 141	86 483	298 624
Loss for the year	–	(2 729)	(2 729)
Other comprehensive income	–	–	–
Total comprehensive loss for the year	–	(2 729)	(2 729)
Issue of shares	27 300	–	27 300
Shares issued as part of business combination	20 100	–	20 100
Total contributions by owners of company recognised directly in equity	47 400	–	47 400
Opening balance as previously reported	259 541	83 754	343 295
Adjustment from adoption of IFRS 16, net of tax	–	1 460	1 460
Balance at 1 April 2019 as restated	259 541	85 209	344 755
Loss for the year	–	(36 128)	(36 128)
Other comprehensive income	–	–	–
Total comprehensive loss for the year	–	(36 128)	(36 128)
Balance at 31 March 2020	259 541	49 081	308 627
Note(s)	16		

Statement of **cash flows**

	Note(s)	2020 R'000	Restated 2019 R'000
Cash flows from operating activities			
Cash receipts from customers		**622 637**	561 283
Cash paid to suppliers and employees		**(534 401)**	(527 513)
Cash generated from operations	32	**88 236**	33 770
Interest income		**2 718**	1 717
Finance costs[1]		**(7 439)**	(6 917)[2]
Tax paid	21	**(10 384)**	(11 277)
Net cash from operating activities		**73 131**	17 293
Cash flows from investing activities			
Purchase of property, plant and equipment	6	**(2 368)**	(2 921)
Sale of property, plant and equipment		**766**	435
Purchase of other intangible assets	8	**(9 659)**	(10 514)
Business combinations, net of cash acquired		**–**	(63 103)
Net cash from investing activities		**(11 261)**	(76 103)
Cash flows from financing activities			
Proceeds on share issue	16	**–**	27 300
Proceeds from interest bearing borrowings		**–**	58 038
Repayment of interest bearing borrowings	40	**(11 497)**	(18 797)
Finance costs[1]		**(3 816)**	(4 345)[2]
Payment on lease liabilities	40	**(3 963)**	–
Net cash from financing activities		**(19 276)**	62 196
Total cash movement for the year		**42 594**	3 386
Cash at the beginning of the year		**37 478**	41 254
Unrealised foreign exchange adjustment		**2 534**	(7 162)
Total cash at end of the year	15	**82 606**	37 478

[1] *The total interest paid was R11 225 000 (2019: R11 261 000).*

[2] *The allocation of finance costs in 2019 has been restated as the finance costs on the fixed property were incorrectly included in financing activities and not operating activities.*

Accounting **policies**

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these annual consolidated financial statements are set out below. These accounting policies are consistent with the previous year, except as noted in Note 2 – Changes in significant accounting policies.

1.1 Basis of preparation

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the JSE Listings Requirements and the Companies Act of South Africa. The annual consolidated financial statements have been prepared under the historical cost convention, on a going concern basis, and presented in South African Rand (rounded to the nearest R'000), which is the Group's functional and presentation currency.

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Group; and
- the cost of the item can be measured reliably.

Property, plant and equipment are tangible assets which the Group holds for its own use or for rental to others and which are expected to be used for more than one year.

Property, plant and equipment are stated at historical cost less any accumulated depreciation and any accumulated impairment losses. Cost includes costs incurred initially to acquire or construct an item of property, plant and equipment (including directly attributable costs in bringing the asset to its location and condition necessary for it to be capable of operating in the manner that management intended) and costs incurred subsequently to add to, replace part of, or service it to the extent it is probable that future economic benefits will flow to the Group and the cost can be measured reliably. Day-to-day servicing costs are expensed. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the replaced part is derecognised.

The carrying values of property, plant and equipment are reviewed when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying value exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. Land is not depreciated. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. If the expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The estimated useful lives of the major categories of property, plant and equipment are:

Buildings	20 years
Plant and machinery	5 – 10 years
Furniture and fittings	6 years
Motor vehicles	5 – 7 years
Office equipment	4 – 7 years
Computer and electronic equipment	3 – 16 years
Leasehold improvements	Period of the lease
Manufacturing equipment	4 – 17 years
Tools and laboratory equipment	3 – 18 years

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.2 Property, plant and equipment continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of business is included in intangible assets. Goodwill is tested for impairment annually, as well as when there is any indication of possible impairment, and carried at cost less accumulated impairment losses. Impairment losses are not reversed. Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

1.4 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour and other direct costs but excludes interest expenses. Net realisable value is the estimate of the selling price in the ordinary course of business, less applicable variable selling expenses. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.5 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.6 Revenue recognition

The Group recognises as revenue the amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services when (or as) it transfers control to the customer.

The Group's revenue is derived from contracts with customers. Revenue can be classified into the following categories:

- sale of goods manufactured;
- sale of finished goods;
- sale of designed, developed and project services;
- sale of network installation services;
- sale of licenses; and
- support and maintenance services.

1.6 Revenue recognition continued

The Group recognises revenue when a customer obtains control of the goods or services. Determining the timing of the transfer of control over-time or at a point in time requires judgement and is determined as detailed below. Revenue is recorded based on the price specified in the contract. No discounts or rebates are provided. No element of financing is deemed present as the sales are usually made with a credit term of 30 days, which is consistent with market practice. The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision. The Group does not sell extended warranties.

Sale of finished goods, sale of goods manufactured and sale of licenses (goods)

Sale of finished goods relates to where the Group on sells finished products procured to the end customer. Sale of goods manufactured relates to products that are manufactured and sold to clients based on the customers' or the Group's own specifications. Sale of licenses relates to the customisation and deployment of cloud based electronic solutions procured from third party vendors for use by the customer.

Customers obtain control of the "goods" when the goods are delivered to the location as specified. Delivery occurs when the goods have been shipped to the specific location and the customer has accepted the goods by means of a signed delivery receipt. Revenue from the sale of licences, in respect to digital certificates, is recognised at the point in time at which the licence is granted and the customer can direct the use of and obtain substantially all the remaining benefits from the licence at the point in time at which the licence transfers.

Sale of designed, development and project services, sale of network installation services and support and maintenance services (services)

Sale of network installation services relates to installation services. Sale of designed, development and project services relates to a range of services offered to the markets in which we operate. Services also include the provision of maintenance and support services for these solutions.

Revenue from providing "services" is recognised in the accounting period in which the services are rendered. For the sale of design, development and project services, revenue is recognised over time by using the input method as reference to costs incurred to date as a percentage of total expected costs to be incurred at the end of the reporting period. Revenue from services is price based on the individual performance obligation.

The Group determined that the input method is the best method in measuring progress of the sale of design, development and project services as well as installation, maintenance and support services because there is a direct relationship between the Group's effort (i.e., labour hours incurred) and the transfer of service to the customer. The Group recognises revenue on the basis of the labour hours expended relative to the total expected labour hours to complete the service or with reference to costs incurred to date as a percentage of total expected costs to be incurred at the end of the reporting period, depending on the nature of the contract.

1.7 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. The related cost of providing services recognised as revenue in the current period is included in cost of sales.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.8 Current and deferred income tax

Income tax expense

The tax expense for the year comprises current and deferred tax. Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income. Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current income tax for current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior years exceeds the amount due for those years, the excess is recognised as an asset.

Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised, for the carry forward of unused tax losses, to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised.

1.9 Leases

Policy applicable from 1 April 2019

The Group assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is “identified”, which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Group has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

1.9 Leases continued

Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the Group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets (R350 000 which comprises of low value printers, coffee machines and water coolers). For these leases, the Group recognises the lease payments as an operating expense (note 27) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Details of leasing arrangements where the Group is a lessee are presented in note 7 Leases (Group as lessee).

Lease liability

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the Group under residual value guarantees;
- the exercise price of purchase options, if the Group is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 27).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The interest charged on the lease liability, determined with reference to the interest rate implicit in the lease or the Group's incremental borrowing rate (note 5 (f)), is included in finance costs (note 30).

Right-of-use assets

Right-of-use assets are presented as a separate line item on the Statement of Financial Position.

Lease payments included in the measurement of the right-of-use asset comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Group incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.9 Leases continued

Right-of-use assets continued

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss.

When the Group or lessor terminates or cancels a lease, the right-of-use asset and lease liability are derecognised. On derecognition of the right-of-use asset and lease liability, any difference is recognised as a derecognition gain or loss together with termination or cancellation costs in profit or loss.

Policy applicable before 1 April 2019

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

1.10 Financial instruments

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets which are debt instruments

- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows).

Derivatives which are not part of a hedging relationship

- Mandatorily at fair value through profit or loss.

Financial liabilities

- Amortised cost.

Note 4 Financial instruments and risk management presents the financial instruments held by the Group based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

1.10 Financial instruments continued

Financial assets at amortised cost

Classification

Loans to entities outside the Group (other non-current financial assets – note 11 and loans to related parties – note 13) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on these loans.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus amortisation (interest) using the simplified interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Trade and other receivables

Classification

Trade and other receivables, excluding, when applicable, VAT, employee costs in advance and prepayments, are classified as financial assets subsequently measured at amortised cost (note 14).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the Group's business model is to collect the contractual cash flows on trade and other receivables.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at the transaction price.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.10 Financial instruments continued

Trade and other receivables continued

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT, employee costs in advance and prepayments. The amount of expected credit losses is updated at each reporting date.

The Group measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL) based on the simplified approach, which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

Measurement and recognition of expected credit losses

The Group makes use of a ECL calculation to determine expected credit losses on trade and other receivables.

The calculation is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is segmented into groups that are considered to exhibit similar credit risks and behaviour. Concentrated positions including material account balances or atypical customers are provided with separate ECL's where appropriate. Details of the critical judgements and assumptions applied in calculating the loss allowance is in note 5(b) and 14.

An impairment gain or loss is recognised in profit or loss with a corresponding adjustment to the carrying amount of trade and other receivables, through use of a loss allowance account. The impairment loss is included separately on the Statement of Comprehensive Income.

Write off policy

The Group writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk

Details of credit risk are included in trade and other receivables note (refer to note 14).

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. If collection is expected in one year or less (or in normal operating cycle of business if longer), they are classified as current liabilities. If not, they are presented as non-current liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at fair value and subsequently at amortised cost.

1.10 Financial instruments continued

Bank overdraft and borrowings

Bank overdrafts and borrowings are recognised initially at fair value, net of transaction costs incurred. Bank overdrafts and borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Bank overdrafts and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of future and option contracts are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in profit or loss and cash and cash equivalents as they arise.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or expires.

1.11 Foreign currencies

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency).

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of comprehensive income.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.12 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pretax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.13 Contract assets/contract liabilities

The value of contract assets comprises the selling price for services rendered up to and including reporting date, which cannot be invoiced at this date due to contractual milestones not yet reached. The value is calculated based on the percentage of completion method for fixed price development contracts. The value is stated at selling price less provision for impairment, if any.

The value of contract liabilities comprises the excess of invoice values over the selling price for services rendered recognised up to and including reporting date. The value is calculated based on the percentage of completion method for fixed price development contracts.

Revenue is recognised over time by using the input method as reference to costs incurred to date as a percentage of total expected costs to be incurred at the end of the reporting period.

1.14 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised immediately in profit or loss for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Goodwill acquired in a business combination is, from the acquisition date, attributable to each of the cash-generating units, or companies of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so attributable represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment as defined by paragraph 5 of IFRS 8 "Operating segments" before aggregation.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- Then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

1.14 Impairment of non-financial assets continued

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

1.15 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) are recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

The Group operates a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and as the employee renders the services. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments are available.

Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1.16 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the financial statements in the year in which the dividends are approved by the directors.

1.17 Consolidation – subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.18 Earnings per share

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Headline earnings per ordinary share is calculated using the weighted average number of ordinary shares in issue during the period and is based on the earnings attributable to ordinary shareholders, after excluding those items as required by Circular 1/2019 issued by the South African Institute of Chartered Accountants (SAICA).

1.19 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. The amortisation period and the amortisation method for intangible assets are reviewed every period-end. The amortisation is included in operating expenses in the profit or loss.

An intangible asset arising from internal developments (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets include the following:

Externally acquired computer software

Costs associated with the maintaining of externally acquired computer software are recognised as an expense.

Costs of externally acquired computer software products recognised as intangible assets are amortised over their useful lives.

Internally generated intangible assets (developed products)

Costs associated with the maintaining of internally generated intangible assets are recognised as an expense. Costs that are directly associated with the development or enhancement of identifiable and unique products or features that is under the control of the Group and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Costs include the employee costs incurred as a result of developing the products, an appropriate portion of relevant overheads as well as any hardware utilised in the development process.

Development costs on internally generated intangible assets are amortised over their useful lives.

1.19 Intangible assets continued

Intangible assets identified as part of business combination

As part of the Fair Value Exercise (IFRS 3), certain intangible assets may be identified and recognised at the date of acquisition. These assets are amortised over the amortisation periods as per below.

Intangible assets are amortised using the straight-line method at the following rates:

Item	Average useful life/ amortisation period
Externally acquired	
Computer software	2 years
Internally generated (developed products)	
Rail products	2 – 3 years
Defence and cyber security products	3 – 5 years
Mining and industrial products	2 – 7 years
Telecommunications products	3 – 5 years
Intangible assets identified as part of business combination	
Brand	5 years
Customer relationships	5 years

1.20 Segment reporting

The segment information has been prepared in accordance with IFRS 8 Operating segments, which requires disclosure of financial information of an entity's operating segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

A segment is a distinguishable component of the Group engaged in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. All intercompany transactions are eliminated on consolidation.

The Group operates within four operating segments and its principle activities are:

(a) Etion Digitise: Safety and Productivity Solutions (SPS)

(b) Etion Connect: Digital Network Solutions (DNS)

(c) Etion Secure: Cyber Security Solutions (LAWTrust)

(d) Etion Create: Original Design Manufacturing (ODM)

1. SIGNIFICANT ACCOUNTING POLICIES continued

1.21 Investments in joint ventures

Investments in joint ventures are accounted for using the equity method. Interest in equity-accounted investees are initially recognised at cost. Goodwill recognised on the acquisition of a joint venture as well as an associate company is included in the carrying amount of the investment.

Derecognition

On the date that the equity-accounted investments are disposed of, the Group ceases to equity account the investments.

Subsequent measurement

Subsequent to initial recognition, the Group recognises its share of the profit or loss and other comprehensive income until the date on which joint control ceases.

Impairment

The Group assesses whether there is any indication that an equity-accounted investee may be impaired at each reporting date. An impairment is recognised when there is objective evidence that the equity-accounted investment is impaired. Impairment losses are deducted from the carrying amount of these investments. Any impairment is calculated after application of the equity method. Losses resulting from transactions with equity-accounted investees are recognised only to the extent of unrelated investor interests in the equity-accounted investees.

Unrealised gains and losses

Unrealised gains or losses on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in them, except where unrealised losses provide evidence of an impairment of the asset. When the Group's share of losses in a joint venture equals or exceeds its interest therein, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the joint ventures.

Notes to the annual consolidated **financial statements**

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these Annual Financial Statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 March 2019, except as described below.

Background

With effect from 1 January 2019, IFRS 16 replaced IAS 17 as well as the related interpretations. The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet.

The new lease standard has fundamentally changed the accounting treatment for operating leases. Historically, operating leases did not result in any assets or liabilities being recorded, with only the lease payments reflected in the income statement.

The new standard eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Going forward there is a single, on-balance sheet accounting model that is similar to current on-balance sheet finance lease accounting, where a right of use (ROU) asset together with a lease liability for the future payments is recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value.

For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with an asset for the right-of-use. In other words, lessees will appear to become more asset-rich but also more heavily indebted. There are also changes in accounting over the life of the lease, with companies now required to recognise a front-loaded lease expense pattern, even when they pay constant annual rentals. Following implementation, depreciation is raised on the right-of-use assets while the lease liability will gradually decrease by the actual lease payments made.

IFRS 16 did not introduce significant changes for lessors, as a result the accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

Adoption and transition

The Group adopted IFRS 16 on 1 April 2019 by applying the modified retrospective approach, with an adjustment to the Group's opening 1 April 2019 reserves and, as permitted by IFRS 16, did not restate its comparative financial results. Accordingly, the Group's previously reported financial results up to 31 March 2019 are presented in accordance with the requirements of IAS 17 and for 2020, and future reporting periods, are presented in terms of IFRS 16. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019. This incremental borrowing rate was calculated using the judgements as disclosed in note 5(f). The Group also recognised right-of-use assets measured on a lease by lease basis at the amount equal to the lease liability.

Practical expedients applied

In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short term leases provided there was no option to extend the term
- the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES continued

IFRS 16 key financial impacts

The single lessee accounting model which comprises IFRS 16's most material impact for the Group results in an increase of R31 211 million in total assets, net increase of R29.751 million in total liabilities and an increase in reserves (net of deferred tax of R0.572 million) of R1.460 million due to the release of the IAS 17 straight-line lease liability provision. The total undiscounted operating lease commitments as at 31 March 2019 amount to R47.420 million, the lease liability as at 1 April 2019 amounted to R32.452 million. This difference relates to discounting the operating lease commitments balance, amounting to R14.968 million, at the incremental borrowing rate calculated for each legal entity in the Group, ranging from 10.5% – 11.3%, due to the varying nature of the leased assets, lease term and risk profile of the subsidiaries within the Group.

3. NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/Interpretation	Effective date: Years beginning on or after	Expected impact
– Long-term Interests in Joint Ventures and Associates – Amendments to IAS 28	01 January 2019	The impact of the amendments is not material.
– Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 – 2017 cycle	01 January 2019	The impact of the amendments is not material.
– Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 – 2017 cycle	01 January 2019	The impact of the amendments is not material.
– Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 – 2017 cycle	01 January 2019	The impact of the amendments is not material.
– Uncertainty over Income Tax Treatments	01 January 2019	The impact of the amendments is not material.
– IFRS 16 Leases	01 January 2019	The impact of the standard is set out in note 2 Changes in accounting policy.

3.2 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 01 April 2020 or later periods:

Standard/Interpretation	Effective date: Years beginning on or after	Expected impact
– Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01 January 2099	Unlikely there will be a material impact
– Definition of a business – Amendments to IFRS 3	01 January 2020	Unlikely there will be a material impact
– Presentation of Financial Statements: Disclosure initiative	01 January 2020	Not expected to impact results but may result in additional disclosure
– Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	01 January 2020	Not expected to impact results but may result in additional disclosure

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Board of Directors.

Categories of financial instruments

Categories of financial assets

2020	Note(s)	Amortised cost R'000	Total R'000	Fair value R'000
Loan to related company	13	**2 304**	**2 304**	**2 304**
Trade and other receivables	14	**106 525**	**106 525**	**106 525**
Cash and cash equivalents	15	**82 678**	**82 678**	**82 678**
Other financial asset	11	**975**	**975**	**975**
		192 482	**192 482**	**192 482**

2019	Note(s)	Amortised cost R'000	Total R'000	Fair value R'000
Loan to related company	13	2 330	2 330	2 330
Trade and other receivables	14	158 118	158 118	158 118
Cash and cash equivalents	15	50 611	50 611	50 611
Other financial asset	11	1 010	1 010	1 010
		212 069	212 069	212 069

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Categories of financial instruments continued

Categories of financial liabilities

2020	Note(s)	Amortised cost R'000	Leases R'000	Total R'000	Fair value R'000
Trade and other payables	18	**99 018**	**–**	**99 018**	**99 018**
Interest-bearing liabilities	17	**64 993**	**–**	**64 993**	**64 993**
Bank overdraft	15	**72**	**–**	**72**	**72**
Lease liabilities	7	**–**	**30 220**	**30 220**	**30 220**
		164 081	**30 220**	**194 301**	**194 301**

2019	Note(s)	Amortised cost R'000	Total R'000	Fair value R'000
Trade and other payables	18	110 350	110 350	110 350
Interest-bearing borrowings	17	76 490	76 490	76 490
Bank overdraft	15	13 133	13 133	13 133
		199 973	199 973	199 973

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 7 and 17, cash and cash equivalents disclosed in note 15, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt by total capital. Net debt is calculated as total 'borrowings' (including current and non-current 'borrowings' as shown in the statement of financial position) less 'cash and cash equivalents'. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2020 and 2019 respectively were as follows:

	Note(s)	2020 R'000	2019 R'000
Interest-bearing borrowings	17	**64 993**	76 490
Lease liabilities	7	**30 220**	–
Less: Cash and cash equivalents	15	**(82 606)**	(37 478)
Total borrowings		**12 607**	39 012
Equity		**308 627**	343 294
Total capital		**321 234**	382 306
Gearing ratio		**4%**	10%

Financial risk management

Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions as well as credit exposures to large customers, including outstanding receivables and committed transactions. For banks and financial institutions, only the big four banks in South Africa are accepted. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

The Group may request certain customers to provide advance payments, as collateral against credit risk, in respect of contracts concluded. The objective of such collateral is to counter the risk of non-payment by the Group's contract debtors. This process is followed by the Group as far as possible to manage the credit risk before credit is granted to the customers on projects.

Cash and cash equivalents

The Group's exposure to credit risk is limited by investing in highly liquid investments that are readily convertible to a known amount of cash. Cash and cash equivalents comprise of cash on hand, bank balances and demand deposits.

Trade receivables

Refer to note 14 for credit risk disclosures.

Loans to related companies

Loans to related companies are repayable on demand.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss.

The credit quality of cash at bank and short term deposits, excluding cash on hand can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The maximum exposure to credit risk is presented in the table below:

		2020			2019		
	Note(s)	**Gross carrying amount R'000**	**Credit loss allowance R'000**	**Amortised cost/fair value R'000**	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000
Loans to group companies	13	**2 349**	**(45)**	**2 304**	2 350	(20)	2 330
Trade and other receivables	14	**124 958**	**(18 433)**	**106 525**	167 180	(9 062)	158 118
Contract assets	19	**18 819**	**(828)**	**17 991**	18 927	–	18 927
Cash and cash equivalents	15	**82 678**	**–**	**82 678**	50 611	–	50 611
Other financial assets	11	**1 010**	**(35)**	**975**	1 010	–	1 010
		229 814	**(19 341)**	**210 473**	240 078	(9 082)	230 996

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Categories of financial instruments continued

Financial risk management continued

Loans to related companies continued

	2020 R'000	2019 R'000
Credit rating		
BAA3: Nedbank; Standard Bank and First National Bank	**82 606**	37 478

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The maturity profile of contractual cash flows of non-derivative liabilities are presented in the following table. The cash flows are the undiscounted contractual amounts:

2020	Note(s)	Less than 1 year	Between 2 to 5years	Greater than 5 years
Non-current liabilities				
Interest-bearing borrowings	17	**–**	**62 134**	**–**
Lease liabilities	7	**–**	**20 343**	**16 004**
Current liabilities				
Interest-bearing borrowings	17	**18 419**	**–**	**–**
Bank overdraft	15	**72**	**–**	**–**
Trade and other payables	18	**99 018**	**–**	**–**
Lease liabilities	7	**7 262**	**–**	**–**
		117 971	**73 641**	**16 005**

2019	Note(s)	Less than 1 year	Between 1 to 2 years	Between 2 to 5 years
Non-current liabilities				
Interest-bearing borrowings	17	–	3 524	39 489
Current liabilities				
Trade and other payables	18	110 350	–	–
Interest-bearing borrowings	17	56 625	–	–
Bank overdraft	15	13 133	–	–
		180 108	3 524	39 489

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar. Foreign exchange risks arises from future commercial transactions as well as recognised assets and liabilities, denominated in a currency that is not the Group's functional currency.

Management uses Forward Exchange Contracts (FEC's) and futures contracts to hedge certain foreign currency liabilities when and where applicable to manage the exchange risk on these transactions. This is consistent with the method used in prior years.

Foreign currency exposure at the end of the reporting period

The net carrying amounts, in foreign currency of the above exposure was as follows:

	'000	'000
Current assets:		
Trade debtors (USD)	US$463	US$466
Cash (USD bank accounts)	US$759	US$72
Current liabilities:		
Trade creditors (USD creditors)	US$3 739	US$4 541
Trade creditors (AUD creditors)	–	AUD57
Trade creditors (Euro creditors)	€13	€66
Trade creditors (GBP creditors)	–	GBP2
Exchange rates		
The following closing exchange rates were applied at reporting date:		
Rand per unit of foreign currency:		
US Dollar	17.980	14.460
Euro	19.772	16.230
GBP	–	19.000
AU Dollar	–	10.560

Forward exchange contracts

The Group has entered into futures and option contracts for future commitments. These are marked to market daily through cash and bank.

2020	**Value of contract**	**Number of contracts**	**Future contract rate**	**Fair value translation rate**	**Contract maturity date**
Future contracts					
USD	**US$370 000**	**370**	**14.64**	**18.14**	**2020/06/12**
USD	**US$145 000**	**145**	**14.76**	**18.14**	**2020/06/12**
Option contracts					
USD	**US$700 000**	**1**	**17.79**	**17.77**	**2020/04/09**
USD	**US$500 000**	**1**	**17.88**	**17.77**	**2020/05/14**

2019	Value of contract	Number of contracts	Future contract rate	Fair value translation rate	Contract maturity date
Option contracts					
USD	US$400 000	1	14.22	14.46	2019/04/12
USD	US$400 000	1	14.56	14.46	2019/04/26
Future contracts					
USD	US$200 000	200	14.60	14.61	2019/06/14
USD	US$150 000	150	14.60	14.61	2019/06/14
USD	US$350 000	350	14.41	14.41	2019/06/14
USD	US$340 000	340	14.72	14.94	2019/12/13
USD	US$160 000	160	14.72	14.94	2019/12/13
AUD	AUD134 184	5	14.13	14.34	2019/04/30

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT continued

Categories of financial instruments continued

Foreign currency sensitivity analysis

The following information presents the sensitivity of the Group to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

	2020		2019	
Increase or decrease in rate	Increase	Decrease	Increase	Decrease
Impact on profit or loss:				
US Dollar 10% (2019: 5 %)	**4 526**	**(4 526)**	2 894	(2 894)
Australian Dollar NIL% (2019: 5 %)	–	–	22	(22)
Euros 10% (2019: 5 %)	**26**	**(26)**	54	(54)
GBP NIL% (2019: 5 %)	–	–	30	(30)
	4 552	**(4 552)**	3 000	(3 000)

Interest rate risk

As the Group has interest bearing assets and liabilities, the Group's income and operating cash flows are partly dependent on changes in market rates. The Group's interest rate risk arises from long term borrowings, related party loans as well as cash and cash equivalents. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value risk. During March 2020 and 2019, the Group's borrowings at variable rates were only denominated in South African Rand.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and possible hedging. Based on the scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

As at 31 March 2020, if interest rates on South African Rand denominated borrowings at that date had been 100 basis points lower with all other variables held constant, pre-tax profit would have been R878 142 higher due to the net increase in interest earned on bank deposits and paid on borrowings. In March 2019 the pre-tax profit would have been R942 716 lower if there were a 100 basis points increase in the net interest earned on bank deposits and paid on borrowings for that financial year.

Price risk

The Group is not exposed to equity securities or commodity price risk.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. Refer to note 38 for the fair value disclosures.

The nominal value less loss allowance of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using discount rate that reflects the interest rate set by the bank as at the end of the reporting period.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment

The Group tests annually whether any cash-generating units and goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.3. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the gross margin, growth rate and/or discount rate assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply/demand, together with economic factors such as the economic stability of the country of main operations, fluctuation in exchange rates etc. Refer to note 8 for estimates used.

(b) Trade receivables and loans to related company

The impairment provision for trade receivables and loans to related company is calculated using the Moody's Analytics Credit Loss and Impairment Analysis Suite. The tool provides solutions for the most crucial aspects of the impairment calculation process based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the analysis of empirical evidence of historical defaults and losses and existing market conditions. Material and concentrated exposures were assessed separately. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The key assumptions and inputs involved include the following:

- A default is classified as any amount that is not collected within 90 days of the start of the month in which it was invoiced. It is also at this point that the debtor is considered to be credit impaired;
- Asset values were put through Moody's Analytics ImpairmentCalc which incorporates their GCOR macro-economic data, forecasts, weightings and correlations to convert historic Credit Losses to forward-looking ECL's.
- The resultant PD and LGD's are converted from Through The Cycle "TTC" to Point in Time "PIT" measures using Moody's Analytics ImpairmentCalc product, which conditions these measures based on their database of validated historic SA macro-economic data and then calculates a forward-looking ECL using macro-economic forecasts with a probability weighted average of Moody's Analytics' economic forecasts and scenarios – Baseline (assumes more than 8% contraction in GDP), Stronger Near-Term Rebound (S1- assumes a 6% contraction in GDP), and Moderate Recession (S3- assumes a contraction of more than 12% in GDP), weighted 40%, 30% and 30%.
- The macro-economic forecasts and scenarios used in the Moody's Analytics credit models forward-looking ECL include the impact of COVID-19. The major correlations in the Moody's models are to year-on-year changes in GDP.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

(c) Allowance for slow moving, damaged and obsolete inventory

An allowance is made for inventory to write inventory down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write-down is included in cost of sales.

(d) Deferred tax assets

The Group uses budgets and financial forecasts of the respective companies for the foreseeable future to estimate whether deferred tax assets are recoverable or not.

Management has reviewed the three-year budget and financial plan of the Group and its underlying subsidiaries and based on the profitability projected consider it probable that future taxable profits will be available against which the tax losses may be used, and the related deferred tax asset realised. Refer to note 10 for further detail.

(e) Useful lives and residual values

The useful lives and residual values of property, plant and equipment items, specifically manufacturing equipment items that are utilised over many years, are evaluated annually. Management estimates are based on historical experience and industry norms, taking into account any relevant information on hand of residual values of assets being utilised that is readily available from equipment suppliers or other players in the manufacturing environment. Management performs annual residual value assessments for the residual value of the building and it is expected that the residual value of the property will at least be cost price.

(f) Incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, the lease terms, nature of the asset). The Group estimated the IBR using recent third-party financing received by Parsec Properties Proprietary Limited in respect to its property loan as a starting point. The reasonableness of using this rate as a reference is supported by the fact that other financing activities (overdraft facilities and instalment sales agreements) conducted within the Group have a cost of financing within a similar range. The rate (10.76%) was adjusted to make provision for certain entity-specific estimates such as the subsidiary's stand-alone credit rating, the lease term, nature of the asset and possible security. The incremental borrowing rate was calculated for each legal entity in the Group utilising this external funding rate as a starting point for each entity and ranges from 10.5% – 11.3% due to the varying nature of the leased assets, lease term and risk profile of the subsidiaries within the Group.

(g) Determination of the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of buildings, office space and equipment, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the group is typically reasonably certain to extend (or not terminate).
- Otherwise, the group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Extension options in building and equipment leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

As at 31 March 2020, the most significant lease being that of the office building was 2 years into its 10 year lease term. It is therefore not reasonably certain at this time as to whether the Group will consider extending the lease. Potential future cash outflows of R41.793 million (undiscounted) have not been included in the lease liability in this regard.

The lease term is reassessed if an option is actually exercised (or not exercised) or the group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(h) Intangible assets

The Group uses forecasted sales of products that are developed to determine if the costs capitalised are recoupable in the foreseeable future. Costs that are directly associated with the development and enhancement of products are capitalised when it is probable that economic benefits exceeding these costs will be generated beyond one year. Should it be determined that sales are not deemed to be enough to recoup the capitalised cost, the asset value is re-assessed and any impairment of the assets are recognised in the statement of comprehensive income in that particular financial period.

6. PROPERTY, PLANT AND EQUIPMENT

	2020 Cost R'000	2020 Accumulated depreciation R'000	2020 Carrying value R'000	2019 Cost R'000	2019 Accumulated depreciation R'000	2019 Carrying value R'000
Buildings	**30 525**	**(611)**	**29 914**	30 525	(305)	30 220
Manufacturing equipment	**20 117**	**(13 909)**	**6 208**	19 792	(12 092)	7 700
Plant and machinery	**300**	**(163)**	**137**	640	(391)	249
Furniture and fittings	**2 956**	**(1 376)**	**1 580**	2 835	(1 048)	1 787
Motor vehicles	**2 753**	**(2 230)**	**523**	4 029	(2 453)	1 576
Office equipment	**3 937**	**(2 397)**	**1 540**	3 868	(1 918)	1 950
Computer and electronic equipment	**10 068**	**(7 244)**	**2 824**	8 444	(5 143)	3 301
Leasehold improvements	**759**	**(654)**	**105**	759	(477)	282
Tools and lab equipment	**4 307**	**(3 799)**	**508**	4 630	(3 240)	1 390
Total	**75 722**	**(32 383)**	**43 339**	75 522	(27 067)	48 455

Reconciliation of property, plant and equipment

2020	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing balance R'000
Land and buildings	**30 220**	**–**	**–**	**(306)**	**29 914**
Manufacturing equipment	**7 700**	**325**	**–**	**(1 817)**	**6 208**
Furniture and fittings	**1 787**	**139**	**(7)**	**(339)**	**1 580**
Motor vehicles	**1 576**	**–**	**(492)**	**(561)**	**523**
Office equipment	**1 950**	**68**	**–**	**(478)**	**1 540**
Computer and electronic equipment	**3 301**	**1 745**	**(30)**	**(2 192)**	**2 824**
Leasehold improvements	**282**	**–**	**–**	**(177)**	**105**
Tools and lab equipment	**1 390**	**91**	**(216)**	**(757)**	**508**
Plant and machinery	**249**	**–**	**(29)**	**(83)**	**137**
	48 455	**2 368**	**(774)**	**(6 710)**	**43 339**

2019	Opening balance R'000	Additions R'000	Additions through business combi-nations R'000	Disposals R'000	Depre-ciation R'000	Closing balance R'000
Land and buildings	30 525	–	–	–	(305)	30 220
Manufacturing equipment	9 789	4	–	–	(2 093)	7 700
Furniture and fittings	508	1 127	854	(286)	(416)	1 787
Motor vehicles	2 172	–	177	(61)	(712)	1 576
Office equipment	2 401	4	34	(9)	(480)	1 950
Computer and electronic equipment	2 286	1 600	1 808	(92)	(2 301)	3 301
Leasehold improvements	265	–	258	–	(241)	282
Tools and lab equipment	2 007	186	–	–	(803)	1 390
Plant and machinery	341	–	–	–	(92)	249
	50 294	2 921	3 131	(448)	(7 443)	48 455

Property, plant and equipment encumbered as security

The manufacturing equipment, plant and machinery and motor vehicles with a book value of R5 154 500 (2019: R9 525 195) serve as security for instalment sale agreements (note 17).

Details of properties

The property is situated at 76 Regency drive, Route 21 Corporate Park, Irene, Gauteng. The property serves as security for the borrowings as per note 17.

7. LEASES (GROUP AS LESSEE)

The Group leases various buildings and equipment. Rental contracts are typically made for fixed average periods of between three – ten years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1 April 2019, all existing operating leases, which were either not less than 12 months or not deemed a low value asset, were recognised as a right of use asset with a corresponding lease liability.

Extension and termination options are included in some of building and office space leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

The Group adopted IFRS 16 for the first time in the current financial period. Comparative figures have been accounted for in accordance with IAS 17 and accordingly, any assets recognised under finance leases in accordance with IAS 17 for the comparative have been recognised as part of property, plant and equipment. The information presented in this note for right- of-use assets therefore only includes the current period.

7. LEASES (GROUP AS LESSEE) continued

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are as follows:

	2020 R'000	2019 R'000
Buildings	**25 346**	–
IT equipment	**2 636**	–
	27 982	–
Additions to right-of-use assets on transition		
Buildings	**30 107**	–
IT equipment	**2 345**	–
Additions to right-of-use assets during the year		
IT equipment	**1 731**	–
	34 183	–

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 27).

	2020 R'000	2019 R'000
Buildings	**4 762**	–
IT equipment	**1 439**	–
	6 201	–
Other disclosures		
Interest expense on lease liabilities	**2 807**	–
Leases of low value assets included in operating expenses	**959**	–
Total cash outflow from leases	**6 670**	–
Leases of short term nature	**2 792**	–

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Interest-bearing borrowings

The maturity analysis of lease liabilities is as follows:

	2020 R'000	2019 R'000
Within one year	**7 262**	–
Two to five years	**20 343**	–
More than five years	**16 004**	–
	43 609	–
Less finance charges component	**(13 389)**	–
	30 220	–
Non-current liabilities	**25 698**	–
Current liabilities	**4 522**	–
	30 220	–

Comparative information for lease liabilities under IAS 17

The information presented for lease liabilities for the comparative period has been prepared on the basis of IAS 17.

	2019 R'000
Operating lease commitments	
– within 1 year	5 514
– in second to fifth year inclusive	25 902
– later than five years	16 004
	47 420

8. INTANGIBLE ASSETS

	2020 Cost/ valuation R'000	2020 Accumulated amortisation and impairments R'000	2020 Carrying value R'000	2019 Cost/ valuation R'000	2019 Accumulated amortisation R'000	2019 Carrying value R'000
Customer relationships and brands	**39 913**	**(29 089)**	**10 824**	39 467	(20 750)	18 717
Computer software	**6 486**	**(5 749)**	**737**	6 191	(4 223)	1 968
Goodwill	**149 272**	**(25 171)**	**124 101**	149 272	–	149 272
Development of intellectual property	**43 401**	**(23 759)**	**19 642**	42 447	(20 983)	21 464
Total	**239 072**	**(83 768)**	**155 304**	237 377	(45 956)	191 421

Reconciliation of intangible assets

2020	**Opening balance R'000**	**Additions R'000**	**Amortisation R'000**	**Impairment R'000**	**Total R'000**
Customer relationships and brands	**18 717**	**–**	**(7 893)**	**–**	**10 824**
Development of intellectual property	**21 464**	**9 364**	**(2 771)**	**(8 415)**	**19 642**
Computer software	**1 968**	**295**	**(1 526)**	**–**	**737**
Goodwill	**149 272**	**–**	**–**	**(25 171)**	**124 101**
	191 421	**9 659**	**(12 190)**	**(33 586)**	**155 304**

2019	Opening balance R'000	Additions R'000	Additions through business combinations R'000	Amortisation R'000	Closing balance R'000
Customer relationships and brands	10 235	–	15 847	(7 365)	18 717
Development of intellectual property	14 342	10 338	–	(3 216)	21 464
Computer software	894	20	2 717	(1 663)	1 968
Goodwill	93 072	–	56 200	–	149 272
	118 543	10 358	74 764	(12 244)	191 421

Impairment of intangibles

During the current financial year customer engagements revealed a diminished demand and a lack of interest in furthering new opportunities and development projects relating to intellectual property developed by the SPS segment. After calculating the expected future margins on possible sales opportunities for these products, it became evident that the carrying amount of intellectual property was not recoverable and a decision was made to write off R8.614 million. Management conducts a rigorous review of all products included under intellectual property developed at each reporting date. This involves a detailed assessment of the economic viability and prospective sales of these products based on the current information as sourced from engagement with possible customers. Following this assessment, only products where the future expected margin still exceeded the carrying value are retained as intellectual property developed (intangible assets). In the current year no additional impairments were noted.

As detailed in note 36, a three-tiered COVID-19 scenario analysis was performed for each CGU in the Group to determine risk adjusted weighted cash flows. This analysis reflects the impact of increased volatility in the forecast cash flows to determine the sensitivity of the asset value to the impacts resulting from the outbreak of COVID-19.

These risk adjusted weighted cash flows were incorporated in the value-in-use calculations performed to assess the recoverable amount of goodwill relating to the SPS, ODM, DNS and Cyber security CGUs. Based on the assessment performed, the recoverable amount of the goodwill relating to the DNS segment was determined to be lower than the carrying value as at 31 March 2020 and an impairment loss of R25.2 million was recorded. No other impairment losses were noted.

Impairment tests for goodwill

Goodwill arose as a result of historical business combinations and is assessed for impairment as follows:

Safety and Productivity Solutions (2019: On-board system products)

The recoverable amount of the goodwill of R15.059 million in the Safety and Productivity Solutions (SPS) CGU is determined based on a value in use calculation relating specifically to the CGU. The calculation used pre-tax cash flow projections based on financial budgets approved by the Executive Committee covering a three year period. With the advent of the COVID-19 pandemic and the enforcement of the nationwide lockdown, the first year of projected cashflows was adjusted to reflect the weighted outcomes of the COVID-19 three tier lockdown scenario analysis performed on the approved FY2021 financial budget. Refer to note 36 for further information. The discount rates are pre-tax and reflect the specific risks relating to the relevant segments.

As part of the restructuring in 2020 the identification of the cash flows from the CGU has changed resulting in a change in the assumptions for the CGU.

In the prior financial year the recoverable amount of the goodwill related specifically to on-board system products determined based on a value-in-use calculation with sales to only one customer. The key assumptions applied in these calculations have therefore been tailored to ensure its appropriateness to the change in business model being applied. Refer to note 10 for further information.

Key assumptions used for these value in use calculations are as follows:

	2020 Safety and Productivity Solutions %	2019 On-board system products %
Gross margin	**43**	33
Growth rate (average)	**7**	1
Discount rate	**24**	9
Terminal growth rate	**5**	5

8. INTANGIBLE ASSETS continued

Parsec business combination

The recoverable amount of the goodwill of R78 million due to the Parsec business combination is determined based on a value in use calculations and is allocated to the following CGU's: Digital Network Systems (DNS): R25.2 million; and Original Design Manufacturing (ODM): R52.8 million. The calculation used pre-tax cash flow projections for five years of which three years were based on financial budgets approved by the Executive Committee and two years were extrapolated thereafter. With the advent of the COVID-19 pandemic and the enforcement of the nationwide lockdown, the first year of projected cashflows was adjusted to reflect the weighted outcomes of the COVID-19 three tier lockdown scenario analysis performed on the approved FY2021 financial budget. Refer to note 36 for further information. The estimated growth rate is based on the diversification of the customer portfolio and enhancement of the customer base due to new business opportunities. The discount rates are pre-tax and reflect the specific risks relating to the relevant segments. The key assumptions used for the value in use calculation are as follows:

	DNS		ODM	
	2020 %	2019 %	**2020 %**	2019 %
Gross margin	**22**	27	**33**	28
Growth rate (average)	**11**	8	**25**	10
Discount rate	**18**	24	**22**	22
Terminal growth rate	**5**	5	**5**	5

LAWTrust business combination

The recoverable amount of the goodwill of R56.2 million due to the LAWTrust business combination is determined based on a discounted cash flow valuation of LAWTrust as the CGU. The calculation used pre-tax cash flow projections for five years of which three years were based on financial budgets approved by the Executive Committee and two years were extrapolated thereafter. With the advent of the COVID-19 pandemic and the enforcement of the nationwide lockdown, the first year of projected cashflows was adjusted to reflect the weighted outcomes of the COVID-19 three tier lockdown scenario analysis performed on the approved FY2021 financial budget. Refer to note 36 for further information. The discount rates are pre-tax and reflect the specific risks relating to the relevant segment.

The key assumptions applied in the valuation of LAWTrust are as follows:

	2020 %	2019 %
Gross margin	**54**	62
Growth rate (average)	**7**	6
Discount rate	**19**	21
Terminal growth rate	**5**	6

Sensitivity analysis

Sensitivity analyses were performed to substantiate the recoverable amount of goodwill. Only when the discount rate was increased or the gross margin was dropped, to the values as detailed below, was the goodwill calculated to be impaired:

	2020		2019	
	Discount rate increased to %	Gross margin decreased to %	Discount rate increased to %	Gross margin decreased to %
On-board system products	–	–	26	19
SPS	**119**	**(27)**	–	–
ODM	**36**	**25**	250	16
DNS	**–***	**–***	108	13
LAWTrust	**40**	**37**	37	52

* *No sensitivities as goodwill is fully impaired.*

9. INVESTMENT IN JOINT VENTURE

The Group holds 50% ownership interest in Electronic DNA Proprietary Limited, which principle place of business is South Africa. The joint venture is accounted for on the equity method. This investment is not considered to be a material joint venture in the Group.

	2020 % ownership interest	2019 % ownership interest	2020 Carrying amount	2019 Carrying amount
Electronic DNA (Pty) Ltd	**50.00**	50.00	**240**	–*

* *Amount below R1 000*

Interest in joint venture

Summarised financial information as of 31 March 2020 of the joint venture are set out below:

Summarised statement of profit or loss and other comprehensive income

	2020 R'000	2019 R'000
Revenue	**6 854**	4 830
Personnel expenses	**(4 960)**	(4 715)
Depreciation	**(621)**	(273)
Other income and expenses	**(483)**	(414)
Interest expense	**262**	312
Profit before tax	**1 052**	(260)
Tax expense	**189**	74
Total comprehensive income	**1 241**	(186)

9. INVESTMENT IN JOINT VENTURE continued

Summarised statement of financial position

	2020 R'000	2019 R'000
Assets		
Non-current	**358**	734
Current		
Cash and cash equivalents	**6 321**	7 080
Other current assets	**3 762**	805
Total current assets	**10 083**	7 885
Liabilities		
Current		
Loan from joint shareholders	**4 700**	4 700
Other current liabilities	**5 263**	4 614
Total current liabilities	**9 963**	9 314
Total net assets	**478**	(695)

The summarised information presented above reflects the financial statements of the joint venture after adjusting for differences in accounting policies between the Group and the joint venture.

10. DEFERRED TAX ASSETS/(LIABILITIES)

	2020 R'000	2019 R'000
Deferred income tax liabilities		
Prepayments	**(2 288)**	(1 044)
Retention debtors	**–**	(12)
Contract assets	**–**	(631)
Right of use assets	**(7 461)**	–
Intangible assets	**(7 846)**	(9 604)
Property, plant and equipment	**(3 488)**	(2 847)
Total deferred tax liability	**(21 083)**	(14 138)
Deferred income tax asset		
Provisions and accruals	**6 802**	4 991
Lease liabilities	**8 067**	–
Warranty provision	**728**	529
Operating leases	**–**	914
Contract liabilities	**2 871**	2 986
Calculated tax loss	**32 822**	16 363
Total deferred tax asset	**51 290**	25 783
Deferred tax liability	**(21 083)**	(14 138)
Deferred tax asset	**51 290**	25 783
Total net deferred tax asset	**30 207**	11 645
Reconciliation of deferred tax asset/(liability)		
At beginning of year	**11 645**	9 558
Adjustment due to adoption of new standards	**(572)**	1 488
Statement of Comprehensive Income charge	**19 134**	4 460
Acquisition of subsidiary	**–**	(3 861)
At the end of the year	**30 207**	11 645
The net amounts are expected to be recovered and settled as follows:		
Deferred tax asset		
– No more than 12 months after the reporting period	**10 634**	9 420
– More than 12 months after the reporting period	**34 306**	16 363
Deferred tax liabilities		
– No more than 12 months after the reporting period	**(1 705)**	(1 687)
– More than 12 months after the reporting period	**(13 028)**	(12 451)
	30 207	11 645

10. DEFERRED TAX ASSETS/(LIABILITIES) continued

In recent years the Group has enhanced technical capability and made strategic investments to create capacity for the corporate office in a strategic bid to position the business for growth and improve its ability to take advantage of market opportunities. This has also included the development of new solutions in the ODM segment. Due to the long procurement cycles and prevailing market conditions, revenues from the investments into new opportunities are expected to flow in two to three years thereby necessitating a reorganisation during the 2020 financial year to align to market conditions. Management has reviewed the five-year financial plan used as a basis for assessing the recoverability of goodwill in the reorganised SPS segment and based on the forecasted average revenue growth of 7% over a period of three years and royalty income to be earned from the repurposing of internally generated intellectual property, consider it probable that future taxable profits will be available against which the tax losses may be used. Furthermore, based on the projected profitability the business has positioned itself towards achieving net profit margin after tax in excess of 10% in the next three years therefore, management continues to consider it probable that the related deferred tax asset can be realised.

The Group has also recorded tax losses of R12 655 000 in the DNS and ODM segments that are available for offsetting against future taxable profits of the companies in which the losses arose. The DNS business has incurred losses in the current financial year due to the slowdown in fibre installations as network operators continued to reduce capital expenditure in response to lower demand for fibre services in a weak economic environment. The decline in profitability was further compounded by the write down of non-viable, slow-moving and obsolete inventory holdings. This however is a once off cost and will not recur in future. The completion of certain large multi-year contracts and a delay in anticipated orders from customers resulted in losses in the ODM business. However, with the diversification of its customer portfolio and improvement in the customer base anticipated in the 2022 and 2023 financial year the business is expected to return to profitability in the near term. Similarly to the approach followed in respect to the tax losses recorded in Etion Limited, management has reviewed the five-year financial plan used as a basis for assessing the recoverability of goodwill in the DNS and ODM segment and based on the forecasted average revenue growth over a period of three years (refer to note 8) consider it probable that the deferred tax assets will be recoverable using the estimated future taxable income to be generated by these subsidiaries. The subsidiaries are expected to generate taxable income from 2021 onwards.

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right of offset at settlement. The amounts disclosed in the statement of financial position are as follows:

	2020 R'000	2019 R'000
Non-current asset	**36 001**	20 945
Non-current liability	**(5 794)**	(9 300)
	30 207	11 645

11. OTHER FINANCIAL ASSET

	2020 R'000	2019 R'000
Interest free borrowings		
Tau Di A Rora Technologies CC	**975**	1 010

This loan is unsecured, bears no interest and has no fixed term of repayment. The loan was made as part of the Group's BBBEE Enterprise and Supplier development program and is intended to assist in building sustainable and profitable suppliers that would be in a position to repay the loans at a later stage. It is anticipated that this repayment will not materialise within the next 12 month period and hence the loans are classified as non-current.

The loan extended to Tau Di Aura Technologies is subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for the loan receivable is calculated based on 12 month expected credit losses under the general model. The loss allowance is updated at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

The Group has raised a loss allowance of 3.15% against the loan and will monitor the credit risk associated with the asset and take further action to impair if appropriate.

	Gross loan R'000	Expected credit loss R'000	Net loan R'000
Loan to Tau Di A Rora Technologies CC	**1 010**	**(35)**	**975**

12. INVENTORIES

	2020 R'000	2019 R'000
Work in progress	**139**	3 595
Finished goods	**55 344**	87 500
	55 483	91 095
Provision for slow moving inventories	**(142)**	(3 546)
	55 341	87 549

The cost of inventories recognised as expense and included in cost of sales amounted to R204.5 million (2019: R308.9 million).

During the financial year Etion Connect performed a detailed review of inventory on hand with the objective of identifying inventory items that have not been sold over a significant period of time, obsolete stock resulting from to changes in market and products rendered non-viable due increased price competition. This exercise was necessitated by the increase in inventory purchases to fulfil customer orders in spite of high levels of inventory on hand and reduced customer demand. Based on the analysis performed, non-viable, slow-moving and obsolete inventory to the value of R13 million was written down to net realisable value of R1 million. This was recognised as an expense and included in cost of sales in the statement of profit and loss.

13. LOAN TO RELATED COMPANY

Joint venture

	2020 R'000	2019 R'000
Electronic DNA Proprietary Limited	**2 304**	2 330

The loan is unsecured, interest free and is repayable on demand.

The loan is subordinated in favour of all other creditors until such time that the assets fairly valued exceed the liabilities.

Split between non-current and current portions

	2020 R'000	2019 R'000
Current assets	**2 304**	2 330

Exposure to credit risk

Loans receivable inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if counterparties fail to make payments as they fall due.

Loans receivable are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for loans receivable is calculated based on 12 month expected credit losses under the general model. The loss allowance is updated at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

Loans to related company was valued based on the risk of the counter-party. The Moody's RiskCalc solution was used to calculate a historic loss rate for the counterparty. The Moody's RiskCalc solution compares company financial information to an extensive database of company financial and default information. The inputs into this were the historical audited financial statements of the counter-party or more recent management accounts where considered appropriate. The historical loss rate is converted into a forward-looking measure of an ECL using Moody's Analytics credit models, which incorporates their macro-economic estimates and scenarios. Refer to 5(b) for the critical estimates and judgements applied in this regard.

Where loans have no fixed terms of repayment and it is the intention of the lender to provide sufficient support to ensure that the loan can be repaid in the normal course of business (there is no intent to demand repayment until the entity has sufficient resources to make the repayment) as is the case for the loan to Electronic DNA Proprietary Limited, it is possible to consider a loan as being in Stage 1 even where the absolute PD is high. Where loans are regarded as Stage 2 or Stage 3, lifetime Expected Credit Losses should be applied. Where the term of the loan is less than one year, there will be no difference in the ECL between a Stage 1 and Stage 2 loan.

Refer to notes 36 and 42 for the assumptions applied in respect to COVID-19.

The maximum exposure to credit risk is the gross carrying amount of the loans. The Group does not hold collateral or other credit enhancements against loans receivable.

The loan to Electronic DNA Proprietary Limited was subordinated on 18 September 2018 after the loan was issued, therefore indicating a significant increase in credit risk since initial recognition. The loan is thus classified as Stage 2 with lifetime Expected Credit Losses being applied in the current financial year.

Credit loss allowances

2020	Gross loan R'000	Expected credit loss R'000	Net loan R'000
Total credit loss allowance			
Loan to joint venture	**2 349**	**(45)**	**2 304**

2019	Gross loan R'000	Expected credit loss R'000	Net loan R'000
Total credit loss allowance			
Loan to joint venture	2 350	(20)	2 330

14. TRADE AND OTHER RECEIVABLES

	2020 R'000	2019 R'000
Financial instruments:		
Trade receivables	**122 534**	164 505
Loss allowance	**(18 433)**	(9 062)
Trade receivables at amortised cost	**104 101**	155 443
Deposits	**1 033**	1 034
Retention debtors	**–**	44
Other receivables	**316**	730
Sundry debtors	**1 075**	867
Non-financial instruments:		
Receiver of Revenue – VAT	**16**	37
Employee costs in advance	**195**	59
Prepayments	**11 722**	5 416
Total trade and other receivables	**118 458**	163 630
Split between non-current and current portions		
Current assets	**118 458**	163 630
Categorisation of trade and other receivables		
Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:		
At amortised cost	**106 525**	158 118
Non-financial instruments	**11 933**	5 512
	118 458	163 630

14. TRADE AND OTHER RECEIVABLES continued

The fair values of trade and other receivables approximate the cost due to the short term nature of the receivables.

Refer to note 4 for trade receivables denominated in foreign currencies.

Debtors serve as security for the Group's overdraft facilities (note 15).

Exposure to credit risk

Trade receivables inherently expose the Group to credit risk, being the risk that the Group will incur financial loss if customers fail to make payments as they fall due.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation.

The group applies the IFRS 9 simplified approach in measuring expected credit losses (ECL) on trade and other receivables, which requires a lifetime loss allowance. To measure the expected credit losses, the trade receivables have been grouped based on shared credit risk characteristics and into common ageing buckets.

The ECL rates are calculated per business unit based on historical default rates (default rate multiplied by loss given default rate) over a 5 year period. Default rates are calculated on the proportion of balances from each ageing bucket that age past 90 days. Loss given default rates include actual amounts written-off and all balances at year-end that have been in default for more than 6 months. The resultant rates are benchmarked to downside loss given default rate estimates in the SA economy.

The default rates per ageing bucket multiplied by the overall loss given default rate provides the through-the-cycle loss rates.

These historical loss rates are converted into a forward-looking measure of an ECL using Moody's Analytics credit models, which incorporates their macro-economic estimates and scenarios. This is added as an economic overlay. Refer to 5(b) for the critical estimates and judgements.

An ECL rate is calculated for each ageing bucket in each business unit.

The outcome of this process results in an increase of between 1.7x and 2.6x in converting historical loss rates to ECLs.

Material exposures with different credit risk characteristics are measured separately. The likelihood of a default occurring, and resultant loss, is determined using credit risk ratings (where available) or Moody's Analytics risk models which measure credit risk based on the customer's credit default information. Suitable forward-looking information is incorporated as an economic overlay.

Management may make further adjustments to the ECL to take into account specific event risk where there is uncertainty in respect to the model's ability to capture conditions due to inherent limitations of modelling. This is done by way of an additional overlay via post model adjustments made. In the current year additional adjustments were made for certain debtors in which there is an increased credit risk that was not adequately catered for by the model. Changes to the credit risk of these debtors are assessed based on the industry in which the customers operates as well as reviewing various media platforms and customer communications received to ascertain whether there are any matters that may negatively impact certain debtors' ability to pay.

	Balance sheet R'000	Measurement approach	Judgemental ECL before forward adjustment %	Conversion to forward looking ECL %	ECL R'000	Net R'000
Digital Network Systems (DNS):						
Etion Connect						
Current	**5 852**	Empirical historical data with economic overlay	**0.71**	**1.72**	**(253)**	**5 599**
30 days	**8 496**		**1.25**	**2.89**	**(246)**	**8 251**
60 days	**1 246**		**3.02**	**6.96**	**(87)**	**1 159**
90+ days	**8 211**		**8.63**	**14.91**	**(1 224)**	**6 987**
Total	**23 805**				**(1 810)**	**21 955**
Cyber security: Etion Secure						
Current	**37 626**	Empirical historical data with economic overlay	**0.50**	**1.30**	**(522)**	**37 104**
30 days	**9 542**		**1.18**	**2.92**	**(279)**	**9 263**
60 days	**1 219**		**2.82**	**7.12**	**(87)**	**1 132**
90+ days	**239**		**5.39**	**10.22**	**(24)**	**215**
Specific debtors-foreign exposure	**2 681**	Moody Risk Calc		**0.13**	**(3)**	**2 678**
Total	**51 307**				**(915)**	**50 392**
Original Design Manufacturing: Etion Create						
Current	**17 732**	Empirical historical data with economic overlay	**1.12**	**2.72**	**(482)**	**17 250**
30 days	**3 511**		**1.99**	**4.86**	**(171)**	**3 340**
60 days	**1 082**		**3.78**	**9.50**	**(103)**	**979**
90+ days	**363**		**6.11**	**11.27**	**(41)**	**322**
Specific material	**9 212**	Moody Risk Calc	**6.00**	**24.39**	**(2 247)**	**6 965**
Total	**31 900**				**(3 044)**	**28 856**
Safety and Productivity Solutions (SPS): Etion Digitise						
Specific exposure	**2 841**	Specific provision based on management judgement	**0.39**	**0.52**	**(14)**	**2 827**
Specific exposure – credit impaired	**12 650**		**100.00**	**100.00**	**(12 650)**	**–**
Total	**15 491**				**(12 664)**	**2 827**
Total	**122 503**				**(18 433)**	**104 030**

The disclosure of the ECL in the current year has been provided in more detail compared to the prior year in order to facilitate an understanding of the credit risks the various businesses are exposed to. The same level of information is not available for the prior year.

14. TRADE AND OTHER RECEIVABLES continued

Trade receivables – expected credit loss result 2019

	Balance sheet total R'000	Measurement approach	Judgemental ECL before forward adjustment %	Conversion to forward looking ECL %	ECL R'000	Net R'000
South African Trade Receivables ex specific exposure	80 946	Empirical historical data with judgemental overlay	0.393 to 3.347	0.711 to 6.365	(3 852)	77 094
Specific exposures	76 732	Moody's investor services rating	–	0.490 to 16.900	(4 843)	71 889
Foreign exposures	6 827	Domestic trade receivables ex specific exposures with judgemental overlay	1.000	7.942	(367)	6 460
Total	164 505				(9 062)	155 443

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade receivables:

	2020 R'000	2019 R'000
Opening balance in accordance with IAS 39 Financial Instruments: Recognition and Measurement	–	(855)
Adjustments upon application of IFRS 9	–	(5 310)
Opening balance in accordance with IFRS 9	**(9 062)**	(6 165)
Provision raised on trade receivables	**(10 658)**	(4 067)
Provisions reversed on settled trade receivables	**1 287**	1 170
Closing balance	**(18 433)**	(9 062)

The ECL provision was impacted by a decrease in the gross carrying amount of R66.082 million due to settlement by customers. This is partially offset by increase in the gross carrying amount of R23.235 million attributable to new customers.

Trade receivables to the extent of R12 650 148 have been impaired in full.

If a 100% probability was applied to each of the base case, S1 and S3 economic scenarios the impact on the ECL is as follows for each business unit:

	Etion Secure %	Etion Connect %	Etion Create %
Base case	**(1.00)**	**(1.00)**	**(1.00)**
S1	**(12.00)**	**(8.00)**	**(11.00)**
S3	**14.00**	**9.00**	**13.00**

Etion Digitise has not been included in the sensitivity analysis detailed above as a specific provision based on management judgement was applied in determining the ECL.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2020 R'000	2019 R'000
Cash on hand	**44**	49
Bank balances	**80 175**	46 501
Short-term deposits	**2 263**	3 706
Credit card	**196**	355
Bank overdraft	**(72)**	(13 133)
	82 606	37 478
Current assets	**82 678**	50 611
Current liabilities	**(72)**	(13 133)
	82 606	37 478

Refer to note 4 for bank accounts denominated in foreign currencies.

The Group has banking facilities which are secured by the cession of debtors of the individual Companies making use of the facilities (note 14). Overdraft facilities across the Group are limited to 33% of the debtor balance excluding intercompany balances and long outstanding debts greater than 120 days.

The extent of the Group's facilities with their bankers can be summarised as follows:

	2020 R'000	2019 R'000
Overdraft facility	**40 000**	50 000
Corporate credit cards and fleet services cards	**1 050**	1 618
Combined Letter of Guarantee and Forward Exchange Cover facility	**7 350**	7 605
Revolving Credit Line facility	**–**	17 000
Issued Letter of Performance Guarantee	**–**	3 195
Vehicle asset finance facility	**4 674**	3 289
Maintenance lease	**–**	136
	53 074	82 843

16. SHARE CAPITAL

	2020	2019
Authorised		
1 725 490 496 authorised ordinary no par value shares		
Reconciliation of number of shares issued:		
Opening balance	**564 411 033**	461 038 321
Number of shares issued during the year	**–**	103 372 712
Closing balance	**564 411 033**	564 411 033
Issued		
Ordinary no par value shares	**259 541**	259 541

The shares have no par value and the issued shares are fully paid. Each issued share has one voting right and there are no restrictions.

On 26 September 2019 an ordinary resolution was passed by way of general authority, to issue all or any of the authorised but unissued shares in the capital of the Company for cash, subject to the Memorandum of Incorporation of the Company, the requirements of the Companies Act of South Africa and the JSE Listing Requirements, when applicable.

17. INTEREST-BEARING BORROWINGS

	2020 R'000	2019 R'000
Instalment sale agreements		
Minimum payments due		
– within one year	**2 770**	3 442
– in second to fifth year inclusive	**1 163**	4 014
	3 933	7 456
less: future finance charges	**(283)**	(850)
Present value of minimum payments	**3 650**	6 606
Present value of minimum payments due		
– within one year	**2 525**	2 894
– in second to fifth year inclusive	**1 125**	3 712
	3 650	6 606
Secured by: Plant and equipment and motor vehicles with a book value of	**5 155**	9 525
The interest rate exposure of borrowings of the Group is as follows:		
Instalment sale agreement		
At floating rates (average %)	**9.67%**	10.70%

The instalment sale agreements bear interest at prime and are repayable in average monthly instalments of R233 499 (2019 R233 499) over an average period of 60 months.

	2020 R'000	2019 R'000
Property loan: Senior debt		
Minimum payments due		
– no later than one year	**4 135**	3 829
– later than one year and no later than five years	**35 064**	39 199
less: future finance charges	**(9 944)**	(13 151)
Present value of minimum payments	**29 255**	29 877
Present value of minimum payments		
– no later than one year	**1 041**	622
– later than one year and no later than five years	**28 214**	29 255
	29 255	29 877
Secured by: Property situated at 76 Regency Drive, Route 21 Corporate Park with a book value of:	**29 914**	30 220
The interest rate exposure of borrowings of the Group is as follows:		
Senior debt loan agreement		
At fixed rate %	**10.76%**	10.76%
Nedbank Loan		
Minimum payments due		
– no later than one year	**11 514**	49 354
– later than one year and no later than five years	**25 907**	–
less: future finance charges	**(5 333)**	(9 345)
Present value of minimum payments	**32 088**	40 009
Present value of minimum payments		
– no later than one year	**9 842**	40 009
– later than one year and no later than five years	**22 246**	–
	32 088	40 009
Nedbank loan		
At variable rate % (Prime)	**9%**	10.25%

The loan bears interest at prime plus 0.25% and is repayable in monthly instalments of R961 713 (2019: R961 713) over a period of 60 months.

Secured by: Limited deeds of cross-suretyship, for the amount of R112 million in favour of Nedbank between Etion Limited, Etion Connect (Pty) Ltd, Etion Create (Pty) Ltd and Law Trusted Third Party Services (Pty) Ltd. A security cession of all present and future debtors.

17. INTEREST-BEARING BORROWINGS continued

The interest rate exposure of borrowings of the Group is as follows:

	2020	2019
The following financial covenants have been calculated in respect to the Nedbank loan:		
– Interest bearing debt to Tangible Net Worth:	**0.62**	0.89*
– Annual cash-to-debt-service-cover:	**3.30**	1.18
– Cumulative cash-to-debt service ratio:	**4.86**	3.39

* *In the prior year the actual interest bearing debt to tangible net worth ratio was incorrectly disclosed as 1.98 instead of 0.89 and has been restated. The actual ratio at 31 March 2019 was within the target range of 1.75.*

The following financial covenants must be met in respect to the Nedbank loan:

- Interest bearing debt to Tangible Net Worth ratio: not more than 1.75
- Annual cash-to-debt-service-cover ratio: not less than 1.30
- Cumulative cash-to-debt service ratio: not less than 1.80

During the previous financial year the performance recorded by the Group resulted in the breach of the annual cash-to-debt- service-cover loan covenant under the Nedbank loan facility. This breach was confirmed by Nedbank during the annual credit review conducted in September 2019 with the Bank advising that it had condoned the breach and elected not to exercise its rights in terms of the breach but reserved all rights to still do so. The initial covenants structure as negotiated with the Bank upon inception of the facility in March 2018 therefore remains applicable to the current financial year.

Based on the Nedbank covenant compliance review conducted by management for the current financial year the Group is compliant with its covenants under the Nedbank loan facility. This will however be confirmed by the Bank during the upcoming credit review cycle to be conducted in August 2020. As a result, the facility has been classified as non-current at reporting date.

	2020 R'000	2019 R'000
Total liability	**13 408**	43 522
Current liability	**51 585**	32 968
Non-current liability	**64 993**	76 490

18. TRADE AND OTHER PAYABLES

	2020 R'000	2019 R'000
Financial instruments:		
Trade payables	**80 845**	92 594
Accrued expenses	**17 972**	17 060
Sundry creditors	**201**	695
Non-financial instruments:		
Prepayments received	**–**	5 955
Leave accrual	**9 673**	6 671
Receiver of Revenue – VAT	**7 738**	7 168
Operating lease straight line adjustment	**–**	2 031
	116 429	132 174

Exposure to interest rate risk

Trade and other payables are settled in South African Rand except where the payable is denominated in a foreign currency. Refer to note 4 for the outstanding liabilities denominated in foreign currencies at year-end.

19. CONTRACT ASSETS/LIABILITIES

	2020 R'000	2019 R'000
Contract liabilities relating to sale of design, development and project services	**(6 334)**	(15 192)
Contract liabilities relating to support and maintenance services	**(10 252)**	–
	(16 581)	(15 192)
Split between non-current and current portions		
Non-current liabilities	**(355)**	(274)
Current liabilities	**(16 231)**	(14 918)
Total contract liabilities	**(16 586)**	(15 192)
Contract assets		
Contract assets relating to sale of design, development and project services	**18 819**	18 927
Expected credit losses on contract assets	**(828)**	–
	17 991	18 927

(i) Significant changes in contract assets and liabilities

Contract assets relate to work performed and material procured on a number of contracts that were still in the process of being completed at year-end.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all contract assets. To measure the expected credit losses contract assets have been grouped based on the customer projects to which they relate. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of projects/contracts. The group has therefore concluded that the expected loss rates for trade receivables per 30 day category for Etion Create (as detailed in note 14) to which the contract assets relate are a reasonable approximation of the loss rates for the contract assets.

The Group has therefore recognised a loss allowance for contract assets of R0.827 million.

Contract liabilities have remained fairly consistent to that of the prior year.

19. CONTRACT ASSETS/LIABILITIES continued

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities (and how much relates to performance obligations that were satisfied in a prior year).

Revenue recognised that was included in the contract liability balance at the beginning of the period:

	2020 R'000	2019 R'000
Revenue recognised over time	**15 108**	11 453

(iii) Unsatisfied contracts

The following table shows unsatisfied performance obligations resulting from unsatisfied contracts:

	2020 R'000	2019 R'000
Aggregate amount of the transaction price allocated to design, development and project services contracts that are partially or fully unsatisfied as at 31 March	**16 586**	15 192

Management expects that 98% of the transaction price allocated to the unsatisfied contracts as of 31 March 2020 will be recognised as revenue during the next reporting period (R16.231 million). The remaining 2% (R0.355 million) will be recognised in the 2022 financial year.

All other contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

20. PROVISIONS

Reconciliation of provisions

2020	Opening balance R'000	Provision raised R'000	Utilised during the year R'000	Total R'000
Provision for warranty	**1 133**	**1 467**	**–**	**2 600**
Provision for product fleet defect	**757**	**–**	**(757)**	**–**
	1 890	**1 467**	**(757)**	**2 600**

2019	Opening balance R'000	Provisions raised R'000	Utilised during the year R'000	Reversed during the year R'000	Total R'000
Provision for warranty	1 277	43	(187)	–	1 133
Provision for product fleet defect	4 111	–	(604)	(2 750)	757
	5 388	43	(791)	(2 750)	1 890

Provision for warranty

The provision for warranty claims on products sold and delivered was calculated on a project specific basis as the revenue on the product are recognised. A 3 – 7 % failure rate and the estimated production and material cost was used to calculate the provision. The warranty claim is valid for a 12 month period.

Information that is typically considered is whether there is back-to-back warranty cover from the supplier on the products as well as material failure rate from historic information.

Provision for product fleet defect

The Group's performance in the prior year was negatively impacted by a fleet defect at one of the Group's rail clients. The process to replace the units with an internally designed and manufactured unit was completed in the current financial year.

21. TAX PAID

	2020 R'000	2019 R'000
Balance at beginning of the year	**6 596**	5 513
Current tax for the year recognised in profit or loss	**(12 272)**	(7 819)
Subsidiary acquired during the year	**–**	(2 375)
Balance at end of the year	**(4 708)**	(6 596)
	(10 384)	(11 277)

22. REVENUE

	2020 R'000	2019 R'000
Revenue from contracts with customers		
Sale of finished goods	**207 640**	353 753
Sale of goods manufactured	**104 540**	108 056
Sale of design, development and project services	**50 800**	60 410
Sale of network installation services	**2 298**	11 655
Sale of licenses	**112 925**	36 970
Support and maintenance services	**94 686**	43 905
	572 889	595 939
Timing of revenue recognition		
At a point in time		
Sale of finished goods	**207 640**	308 851
Sale of goods manufactured	**104 540**	125 812
Sale of licences	**112 925**	36 970*
	425 105	471 633
Over time		
Sale of design, development and project services	**50 800**	68 746
Sale of network installation services	**2 298**	11 655
Support and maintenance services	**94 686**	43 905*
	147 784	124 306
Total revenue from contracts with customers	**572 889**	595 939

* *Refer to note 39 for an explanation of the restatement.*

23. COST OF SALES

	2020 R'000	2019 R'000
Sale of design, development and project services	**44 691**	48 122
Sale of finished goods	**155 864**	217 008
Sale of goods manufactured	**61 589**	88 068
Sale of licences	**69 980**	25 879
Support and maintenance services	**32 855**	30 734
Sale of network installation services	**1 760**	8 159
Product recall and fleet defect expenses	**–**	(2 750)
Write down of inventories to net realisable value	**13 010**	139
Reversal of write down of inventories to net realisable value	**–**	(32)
	379 749	415 326

24. OTHER OPERATING INCOME

	2020 R'000	2019 R'000
Bad debts recovered	**106**	137
Recoveries from joint venture	**4 795**	3 373
Sundry income	**223**	1 367
	5 124	4 877

25. OTHER OPERATING LOSSES

	2020 R'000	2019 R'000
Losses on disposals, scrappings and settlements		
Property, plant and equipment	**(8)**	(13)
Foreign exchange gains (losses)		
Fair value gains: realised	**2 037**	6 418
Fair value gains: unrealised	**2 927**	75
Fair value losses: realised	**(1 725)**	(4 780)
Fair value losses: unrealised	**(9 500)**	(10 669)
	(6 261)	(8 956)
Total other operating losses	**(6 269)**	(8 956)

26. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in the Statement of Profit or Loss and Other Comprehensive Income.

For financial periods beginning on or after 1 January 2018, IAS 1 Presentation of Financial Statements requires for impairment losses recognised in accordance with IFRS 9 Financial Instruments to be disclosed as a separate line item on the face of the Statement of Profit or Loss and Other Comprehensive Income. In the prior year, the loss allowance had been incorrectly disclosed within other operating expenses and not represented separately on the face of the Statement of Profit or Loss and Other Comprehensive Income. No third statement of Financial Position was required because there was no impact on equity for the earliest period presented. The Statement of Profit or Loss and Other Comprehensive Income has been represented to disclose the loss allowance separately.

The effects of the reclassification are as follows:

	2020 R'000	2019 R'000
Profit or Loss		
Increase in loss allowance	–	2 917
Decrease in other operating expenses	–	(2 917)
Change in net profit	–	–

27. EXPENSES BY NATURE

	2020 R'000	2019 R'000
Advertising and marketing	**1 737**	6 841
Amortisation	**12 190**	12 244
BBBEE related expenses	**2 918**	2 785
Impairment of intangible assets	**33 586**	–
Depreciation on ROU assets	**6 201**	–
Depreciation	**6 710**	7 443
Donations	**10**	91
Employee benefit expense	**191 113**	176 761
Entertainment	**566**	1 001
Hedging costs	**619**	1 390
Installation and subcontractor costs	**3 089**	5 056
Insurance	**1 739**	2 094
Motor vehicle expenses	**701**	1 387
Movement in inventory	**19 198**	(9 915)
Rentals and municipal costs	**2 559**	5 852
Other expenses	**4 060**	1 666
Write down of inventories to net realisable value	**13 010**	–
Personnel cost – training	**1 382**	2 190
Professional and computer services and costs	**3 906**	1 946
Project related travel and wages	**516**	9 722
Purchases of raw materials and consumables used	**281 913**	342 554
Repairs and maintenance expenditure	**1 766**	1 484
Research costs	**107**	224
Skills Development Levy	**588**	392
Subscriptions	**1 729**	2 015
Travel and accommodation – Local	**2 038**	1 790
Travel and accommodation – overseas	**2 258**	1 776
	596 209	578 789

28. EMPLOYEE COSTS

	2020 R'000	2019 R'000
Employee costs		
Salary and wages	**171 631**	153 277
Directors' and prescribed officers remuneration	**19 482**	23 484
Total employee benefit expense	**191 113**	176 761
Post-retirement benefit: defined contribution plan (included in employee benefits above) contributions	**13 137**	10 765
Number of employees at the end of the year	**311**	350

29. FINANCE INCOME

	2020 R'000	2019 R'000
Bank	**2 718**	1 717

30. FINANCE COSTS

	2020 R'000	2019 R'000
Interest-bearing borrowings	**7 550**	6 594
Bank overdraft	**392**	4 084
Tax authorities	**194**	–
Lease liabilities	**2 807**	–
Other	**282**	584
Total finance costs	**11 225**	11 261

The Group has chosen to present interest paid on the Nedbank loan as financing cash flows, all other interest on interest bearing borrowings as operating cash flows. This distinction is based on the underlying nature and purpose of the borrowing. This is applied consistently on an annual basis.

31. TAXATION

	2020 R'000	2019 R'000
Major components of the tax expense (income)		
Current		
Local income tax – current period	**12 241**	7 819
Local income tax – recognised in current tax for prior periods	**31**	–
	12 272	7 819
Deferred		
Originating and reversing temporary differences	**(19 134)**	(8 581)
Arising from prior year overprovision of deferred tax	**–**	4 121
	(19 134)	(4 460)
	(6 862)	3 359

Reconciliation of the tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of South Africa as follows:

	2020 R'000	2019 R'000
Accounting profit (loss)	**(42 990)**	630
Tax at the applicable tax rate of 28% (2019: 28%)	**(12 037)**	176
Tax effect of adjustments on taxable income		
Donations, fines and penalties	**40**	131
Other expenses not deductible	**99**	648
Learnership allowances	**(2 478)**	(2 895)
Impairment of goodwill	**7 048**	–
Business combination costs	**–**	1 475
Prior year overprovision of deferred tax	**–**	4 121
Section 11D allowances	**(148)**	(297)
Security Transfers tax	**221**	–
Prior period amounts not allowed on assessment	**362**	–
Adjustments in respect of current income tax of previous years	**31**	–
	(6 862)	3 359

The estimated tax loss available for set off against future taxable income is R117 223 000 (2019: R 58 439 000).

32. CASH GENERATED FROM OPERATIONS

	2020 R'000	2019 R'000
Profit (loss) before taxation	**(42 990)**	630
Adjustments for:		
Depreciation and amortisation	**25 101**	19 687
Interest income	**(2 718)**	(1 717)
Finance costs	**11 225**	11 261
Decrease in provision for slow moving and obsolete raw materials	**(3 404)**	(1 766)
(Decrease)/increase in provision for impairment of trade receivables	**9 371**	3 204
Loss on sale of property, plant and equipment	**8**	13
Income from equity accounted investments	**(240)**	–
Operating lease straight line adjustment	**–**	1 414
Increase/(decrease) in provisions	**710**	(3 498)
Unrealised foreign exchange differences – cash and bank equivalents	**(2 534)**	7 162
Unrealised foreign exchange differences – debtors	**(392)**	(66)
Unrealised foreign exchange differences – trade creditors	**9 500**	3 499
Inventory write down (net of salvage value)	**13 010**	–
Impairment of intangible assets	**33 586**	–
Increase in provision for impairment of financial assets	**887**	–
Changes in working capital:		
Inventories	**22 642**	(6 474)
Trade and other receivables	**36 193**	6 455
Contract assets	**108**	(1 131)
Trade and other payables	**(23 221)**	(7 256)
Contract liabilities	**1 394**	2 353
	88 236	33 770

33. DIRECTORS' AND PRESCRIBED OFFICER'S EMOLUMENTS

For the purposes of defining related party transactions with key management, key management has been defined as directors and the group's executive committee (prescribed officers) and includes entities controlled or jointly controlled by these individuals.

Executive directors – paid by Etion Ltd

2020	**Basic salary R'000**	**Medical aid R'000**	**Retirement contribution R'000**	**Total R'000**
T Daka	**2 465**	**146**	**79**	**2 690**
EC De Kock	**1 888**	**–**	**330**	**2 218**
Total paid by Etion	**4 353**	**146**	**409**	**4 908**

2019	Basic salary R'000	Medical aid R'000	Retirement contri-bution R'000	Total R'000
T Daka	2 491	136	110	2 737
AR van der Watt	299	38	93	430
EC De Kock	1 888	–	358	2 246
Total paid by Etion	4 678	174	561	5 413

Non-executive

2020	**Fees paid to directors for services R'000**
NS Mjoli-Mncube	**66**
CP Bester	**293**
Dr SJ Khoza	**422**
M Janse van Rensburg	**265**
R Willis	**233**
Total paid by Etion	**1 279**

2019	Fees paid to directors for services R'000
NS Mjoli-Mncube	399
SP Mzimela	165
CP Bester	308
N Medupe	223
Dr SJ Khoza	238
M Janse van Rensburg	98
R Willis	76
Total paid by Etion	1 507

Prescribed officers paid by subsidiaries

2020	Basic salary R'000	Medical aid R'000	Retirement contri-bution R'000	Bonus and perfor-mance related payments R'000	Other (leave pay/ commi-ssion R'000	Total R'000
PC Pelser	**1 498**	**158**	**207**	**–**	**–**	**1 863**
W Modisapodi	**787**	**–**	**67**	**–**	**–**	**854**
T Hector	**1 687**	**–**	**147**	**–**	**–**	**1 834**
S Mafu	**1 592**	**–**	**136**	**–**	**–**	**1 728**
CF Maherry	**2 245**	**–**	**168**	**101**	**–**	**2 514**
M Maherry	**1 885**	**–**	**141**	**92**	**727**	**2 845**
K Seripe	**1 249**	**101**	**117**	**–**	**190**	**1 657**
	10 943	**259**	**983**	**193**	**917**	**13 295**

The definition of prescribed officers has been changed during the current year to only include members of the Group's executive committee and not to include members of the executive committee at a subsidiary level.

2019	Basic salary R'000	Medical aid R'000	Retirement contri-bution R'000	Bonus and perfor-mance related payments R'000	Total R'000
PC Pelser	1 383	129	352	–	1 864
R Fullard	1 209	–	108	–	1 317
EAF Bielich	894	55	168	–	1 117
DT van Loggerenberg	943	90	284	–	1 317
F de Wet	1 163	41	108	–	1 312
BC Lamprecht	1 292	88	156	–	1 536
ML Kamoetie	268	–	63	–	331
MM Massyn-Loubser	1 017	–	38	–	1 055
CF Maherry	2 245	–	168	–	2 413
M Maherry	1 514	–	38	–	1 552
K Seripe	1 882	143	206	519	2 750
Total paid by subsidiary	13 810	546	1 689	519	16 564

34. EARNINGS PER SHARE

	2020 Total shares	2020 Weighted shares	2019 Total shares	2019 Weighted shares
Total and weighted shares				
Number of shares in issue				
Opening balance	**564 411 033**	**564 411 033**	461 038 321	461 038 321
Shares issued during the year	**–**	**–**	103 372 712	54 999 252
Closing balance	**564 411 033**	**564 411 033**	564 411 033	516 037 573

	2020 R'000	2019 R'000
Basic and diluted loss per share attributable to ordinary shareholders		
Net (loss)/profit attributable to ordinary shareholders	**(36 128)**	(2 730)
Weighted average number of shares in issue	**564 411 033**	516 037 573
Basic and diluted loss per share attributable to ordinary shareholders (cents)	**(6.40)**	(0.53)
Headline and diluted headline loss per share attributable to ordinary shareholders		
Net loss attributable to ordinary shareholders	**(36 128)**	(2 730)
Non-headline items after tax:		
Loss on the sale of property, plant and equipment	**8**	13
Impairment of goodwill	**25 171**	–
Write off of intangible assets	**8 415**	–
Total tax effect of adjustments	**(2 358)**	(4)
Headline and diluted headline loss per share attributable to ordinary shareholders	**(4 892)**	(2 721)
Weighted average number of shares in issue	**564 411 033**	516 037 573
Headline and diluted headline loss per share attributable to ordinary shareholders (cents)	**(0.87)**	(0.53)

35. COMMITMENTS UNDER OPERATING LEASES

	2020 R'000	2019 R'000
Operating leases – as lessee (expense)		
Leased property		
Within one year	–	5 052
Later than one year but within 5 years	–	25 167
Later than five years	–	16 004
	–	46 223
Minimum lease payments under operating leases recognised as an expense during the year	–	3 757
Office equipment		
Within one year	–	462
Later than one year but within 5 years	–	735
	–	1 197
Minimum lease payments under operating leases recognised as an expense during the year	**861**	191

36. GOING CONCERN

On 30 January 2020, the World Health Organisation announced the outbreak of COVID-19 as a world health emergency of international concern, and on 11 March 2020 the outbreak was classified as a global pandemic. In South Africa, a National State of Disaster was declared in response to the pandemic, which created restrictions on travel and mass gatherings among other things in the country. A national lockdown was enforced from 26 March 2020, until 17 April 2020 and was subsequently extended on 9 April 2020, to come to an end on 30 April 2020. On 23 April 2020, further measures were announced which would allow for the gradual re-opening of the South African economy in stages from 1 May 2020. The impact of the gradual reopening has been different based on the sector and area in which businesses operate, and the spread of the outbreak post 1 May 2020. The outbreak of COVID-19 and the subsequent measures imposed by various governments in an attempt to contain the spread of the virus, including travel and trade restrictions, social distancing measures and enforced lockdowns have caused disruption to businesses and economic activity in the country.

As the full impact of the COVID-19 pandemic takes effect around the world, the Board and management teams of the Group are facing unprecedented challenges and uncertainty. Now, more than ever, those charged with governance need to ensure that the right issues and concerns about the impact of COVID-19 on the operations and outlook for their organisations are addressed. The Board undertakes regular rigorous assessment of whether the Group is a going concern in light of current economic conditions and available information about future risks and uncertainties.

The projections for the Group have been prepared, covering its future performance, capital and liquidity for a period of 12 months from reporting date including performing sensitivity analyses. These analyses have been updated to include the ongoing developments related to the COVID-19 pandemic. These pandemic scenarios continue to evolve as the effects of the pandemic continue to extend.

In performing the above assessment, the following information regarding the Group and its operations were considered:

Borrowings

- At 31 March 2020, the Group's financing arrangements consisted of term loan funding, asset based finance facilities and overdraft facilities and undrawn forward exchange and general banking facilities totalling R112.8 million, of which R64.9 million has been utilised.
- The medium-term loan facility is subject to certain covenants as detailed in note 17 and is secured by limited cross-suretyships of R112 million in favour of Nedbank.

36. GOING CONCERN continued

Borrowings continued

- Based on the current financial year covenant compliance review conducted by management the Group is compliant with its covenants under the Nedbank loan facility. This will however be confirmed by the Bank during the upcoming credit review cycle to be conducted in August 2020. As a result, the facility has been classified as non-current at reporting date.
- A three month repayment holiday has been granted by Nedbank in respect to the medium term loan facility in Etion Limited, the property loan facility in Parsec Properties and asset based finance facilities (instalment sales agreements) in Etion Create. This will assist in easing the cash flow requirements by approximately R4.2 million for the Group. Nedbank Business Banking has advised that they are willing to work with the Group and provide financial assistance on a case by case basis. We will explore this with the Bank should the need arise.

COVID-19 relief initiatives

- Operating entities within the Group have reviewed the various COVID 19 relief initiatives available and have made applications in this regard.
- Etion Create has been successful in securing assistance from the UIF COVID-19 TERS program from the month of April 2020 to date of this report.
- The possible benefits from COVID 19 relief initiatives available have not been factored into the going concern assessment however the Group will continue to have sufficient liquid funds available in the absence of these reliefs.

Short term liquidity and working capital requirements

- The Group closed its financial year on 31 March 2020 with R82 million in net cash.
- This allowed for sufficient liquid funds and access to overdraft facilities to enable the operating entities within the Group to meet its short term obligations as they become due.

COVID-19 operating environment

- Etion Connect and LAWTrust were classified as essential service providers and authorised to operate throughout the national lockdown enforced from 26 March 2020.
- Etion Create resumed its manufacturing activities on 24 April 2020, however at a reduced capacity due to the occupational health and safety protocols that had to be maintained as prescribed by the government.
- Etion Digitise resumed operations from 1 June 2020, following the implementation of Lockdown Level 3.

The Group's forecasts and projections of its current and expected profitability, taking account of reasonably possible changes in trading performance, show that the Group will be in a position to be able to meet its current obligations in respect to its facilities for at least 12 months from reporting date.

In an attempt to ensure the Group has a comprehensive understanding of any potential impact of the COVID-19 pandemic on the entity's ability to continue as a going concern, management performed a series of sensitivity analyses. Scenario analyses were conducted, to analyse the impacts of possible future events on performance by taking into account several alternative outcomes i.e., scenarios and corresponding implications. This involved a detailed three tier scenario analysis to understand the possible weighted impacts on financial performance for financial year 2021. The analysis was modelled based on the following three lockdown scenarios taking into account an expectation for when Etion would be allowed to trade. A probability weighting was then assigned to each scenario:

- Scenario 1 (Mild): A one-month full lockdown with a nine-month gradual improvement in the economy – 80% probability.
- Scenario 2 (Medium): A three-month full lockdown with a seven-month gradual improvement in the economy – 10% probability.
- Scenario 3 (Severe): A three-month full lockdown with a seven-month gradual improvement in the economy, with the exception of the business confidence and supply chain components within the transmission channels that remain suppressed throughout the remainder of the calendar year (and beyond) – 10% probability.

Based on the anticipated economic impacts of COVID 19, various “triggers” were considered and weighted as most likely to impact the operating entities depending on the duration of the lockdown, were identified by management. These triggers include, but are not limited to:

- Supply chain disruptions.
- Unavailability of personnel/ reduction in workforce.
- Reduction in orders and customer demand in industries in which we operate.
- Inability to raise financing.
- Potential liquidity and working capital shortfalls due to non-payments from customers.
- Onerous contracts.
- Travel restrictions and the possible impact on international business opportunities.
- Ability to ramp up/ return to business as usual following the end of the lockdown.
- Ability to recover from exposure to fluctuations in foreign exchange rates.

The aforementioned triggers were considered against the above three lockdown scenarios developed and these triggers were applied to the Board’s approved FY2021 budget (base case scenario) to determine risk adjusted weighted cash flows that captured the financial impacts of COVID-19.

In preparing this analysis the following key assumptions were used:

Group

- Deferral of salary increases and recruitment freeze on a group wide basis
- No onerous contracts with penalty and minimum targets exist within the Group

Etion Create: Original Design Manufacturing (ODM)

- Possible delays in the receipt of forecast orders from customers resulting in an inability to execute on these projects during the 2021 financial year.
- Limited supply chain disruptions are anticipated based on ongoing engagement with key suppliers. Delays and longer lead-times are however predicted due to restrictions on the imports of goods. However, the impact is considered to be minimal.
- No reduction in operational costs due to retention of design and engineering capability and production facility capacity. Fixed costs will be reviewed and reduced under scenario 2 and 3.
- Deferral of capital expenditure (capex’) spend to preserve cash resources in the short term.

LAWTrust: Cyber security

- Customer demand has remained consistent with increased interest for Digital Signing solutions offered by LAWTrust.
- As a result of mass digitalisation of many businesses driven by the COVID-19 pandemic, management foresees an uptick in interest for cyber security product offerings.
- Minimal supply chains disruptions anticipated as product offerings and solutions are delivered digitally.
- There may be some difficulty in pursuing international prospects should travel restrictions continue, however the business has attempted to mitigate this risk by building a pipeline of opportunities that may be performed remotely.

36. GOING CONCERN continued

Etion Connect: Digital Network Solutions

- Subdued customer demand and reduced revenue recorded for the first quarter of the 2021 financial year as customers prioritised FTTx (Fibre to the x market) installations and maintenance during the lockdown. Subdued customer demand and reduced revenue is anticipated to prevail in second quarter of the 2021 financial year, and recovery expected from third quarter onwards. It is unlikely that the business will be in a position to recover lost revenue.
- Minimal supply chain disruptions anticipated based on ongoing engagement with the Company's major supplier.
- Longer lead-times are expected due to restrictions on the imports of goods however the impact is considered to be minimal. Lead times under Scenario 2 and 3 are expected to have more of a negative impact.
- Material fluctuations in the ZAR/USD exchange rate likely to result in increased pressure on gross margins.
- No reduction to fixed operational expenditure in Scenario 1, however further cost optimisation will be required under Scenarios 2 and 3 for the business to remain viable.

Etion Digitise: Safety and Productivity Services

- Reduced revenue due to the inability to operate under lockdown Levels 5 and 4. It is unlikely that the business will be in a position to recover lost revenue.
- No reduction in fixed costs as the business has been optimised following the restructuring in the 2020 financial year.

The above assumptions used in the sensitivity analyses represent the possible "worst case scenario" based on our current understanding of the continued impact of the pandemic. This scenario is considered to be unlikely, however it is difficult to predict the overall outcome and impact of COVID-19. The Group's projections and sensitivity analysis confirmed that the Group has sufficient capital, liquidity and positive future performance outlook to continue to meet its short term obligations. On this basis and in light of the Group's current financial position, the directors are satisfied that the Group will continue to operate for the foreseeable future, even when considering the severe impacts of the COVID-19 pandemic, and have therefore adopted the going concern basis in preparing these annual consolidated financial statements.

37. COMPANY FINANCIAL STATEMENTS

The separate Annual Financial Statements of the Etion Limited is available on the Company website: www.etion.co.za.

38. FAIR VALUE HIERARCHY

Assets and liabilities measured or disclosed at fair value in the statement of financial position are categorised in its entirety into the following three levels of the fair value hierarchy based on the basis of the lowest level input that is significant to the fair value measurement in its entirety:

- Level 1: fair value measured using quoted prices (unadjusted) in active markets for identical financial assets or liabilities
- Level 2: fair value measured using inputs other than quoted prices included within level 1 that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3: fair value measured using inputs for the financial asset or liability that are not based on observable market data.

For fair value of financial instruments traded in active markets is based on quoted market prices at the financial year-end date. The quoted market price for financial assets held by the Group is the current bid price. The fair value of forward exchange contracts is determined using the quoted forward exchange rates at the financial year-end date, with the resulting value discounted back to present value.

The fair value of derivative financial assets (eg forward exchange contracts) is based on a level 2 in the fair value measurement hierarchy.

The carrying value of non-current financial assets and liabilities at market related floating rates approximate fair value and are classified as level 3.

Where the effects of discounting are immaterial, short term receivables and short term payables are measured at the original invoice amount. Due to the short-term nature of trade receivables and trade payables their carrying amounts approximate their fair value.

39. SEGMENTAL INFORMATION

The segment information has been prepared in accordance with IFRS 8 Operating Segments, which defines the requirements of the disclosure of financial information of an entity's operating segments.

The Group discloses its reportable segments according to the Group's components that the management monitor regularly in making decisions about the operating matters.

Measurement of operating segment profit or loss, assets and liabilities

Segment information is prepared in conformity with the basis that is reported to the Executive Committee in assessing segment performance and allocating resources to segments. These values have been reconciled to the annual consolidated financial statements. The basis reported by the Group is in accordance with the accounting policies adopted for preparing and presenting the annual consolidated financial statements and are consistent with the prior year.

Segment assets and liabilities have been allocated using the same principles in allocating the segment profit and loss. This entails assets and liabilities being allocated, as far as possible directly to the segments they relate and the remaining assets and liabilities in the entities apportioned to segments based on the gross profit contribution of each segment.

Intersegment transactions are eliminated on a gross basis. Segment expenses include direct and allocated expenses.

Reportable segments

During the year the Group conducted operations in four main business areas: Safety and Productivity Solutions (SPS); Digital Network Solutions (DNS); Original Design Manufacturing (ODM) and Cyber Security.

Information about geographical areas

The Group operates primarily in South Africa. The Group revenue earned in South Africa is R 512.254 million (2019: 552.943 million) and earned from other countries is R60.634 million (2019: R42.455 million) resulting mostly from business in the UAE region. All of the Groups' assets and liabilities are located in South Africa. No single customer contributes more than 10% of total revenue.

39. SEGMENTAL INFORMATION continued

2020	SPS R'000	ODM R'000	DNS R'000	Cyber Security R'000	Eliminations R'000	Corporate R'000	Total R'000
Revenue							
Resale of finished goods	29 558	–	160 012	18 980	(910)	–	207 640
Sale of goods manufactured	–	114 665	–	–	(10 125)	–	104 540
Sale of design, development and project services	–	50 800	–	–	–	–	50 800
Sale of network installation services	–	–	2 298	–	–	–	2 298
Sale of licences	–	–	700	112 225	–	–	112 925
Support and maintenance services	–	–	–	94 715	(29)	–	94 686
Segment expenses	(65 999)	(166 845)	(189 550)	(194 000)	68 015	–	(548 379)
Segment other income/(expenses)	296	10 110	29	5 144	(10 455)	–	5 124
Segment other operating gains/(losses)	(262)	(972)	(6 043)	1 008	–	–	(6 269)
Results							
Segment profit	(36 407)	7 758	(32 554)	38 072	46 496	–	23 365
Corporate expenses	–	–	–	–	–	(58 088)	(58 088)
Operating profit							(34 723)
Finance income	–	–	–	–	–	2 718	2 718
Finance costs	–	–	–	–	–	(11 225)	(11 225)
Income from equity accounted investment	–	–	–	–	–	240	240
Profit before tax							(42 990)
Taxation							6 862
Profit for the year							(36 128)
Sales to external customers	28 648	155 340	163 010	225 891	–	–	572 889
Segment revenue							
At a point in time	29 558	114 665	160 712	131 205	(11 035)	–	425 105
Over time	–	50 800	2 298	94 715	(29)	–	147 784
	29 558	165 465	163 010	225 920	(11 064)	–	572 889
Financial position							
Assets	49 645	199 556	100 605	166 302	–	33 974	550 082
Liabilities	2 108	66 179	53 433	56 088	–	63 647	241 455

2019	SPS R'000	ODM R'000	DNS R'000	Restated Cyber Security R'000	Elimi-nations R'000	Corporate R'000	Restated Total R'000
Revenue							
Resale of finished goods	74 902	–	234 691	26 902	(742)	–	353 753
Sale of goods manufactured	–	160 872	–	–	(52 816)	–	108 056
Sale of design, development and project services	20 917	45 693	–	–	(6 200)	–	60 410
Sale of network installation services	–	–	12 057	–	(402)	–	11 655
Sale of licences	–	–	–	36 970	–	–	36 970*
Support and maintenance services	–	–	–	43 905	–	–	43 905*
Segment expenses	(96 216)	(191 447)	(226 279)	(104 555)	85 539	–	(532 958)
Segment other income/(expenses)	–	5 692	201	3 494	(4 510)	–	4 877
Segment other operating gains/(losses)	(437)	(622)	(7 403)	(494)	–	–	(8 956)
Results							
– Segment profit	(834)	20 188	13 267	5 412	20 869	–	58 902
– Corporate expenses	–	–	–	–	–	(48 728)	(48 728)
Operating profit							10 174
Finance income	–	–	–	–	–	1 717	1 717
Finance costs	–	–	–	–	–	(11 262)	(11 262)
Profit before tax							629
Taxation							(3 359)
Sales to external customers	–	–	–	–	–	–	–
Profit for the year							(2 730)
Sales to external customers	95 078	154 272	239 633	106 956	–	–	595 939
Segment revenue							
At a point in time	74 161	160 872	234 691	54 726	(52 816)	–	471 634
Over time	20 917	45 693	12 057	52 230	(6 592)	–	124 305
	95 078	206 565	246 748	106 956	(59 408)	–	595 939
Financial position							
Assets	93 185	205 108	162 904	119 045	–	12 202	592 444
Liabilities	30 485	80 807	69 140	29 987	–	38 731	249 150

* *It was noted that the disclosures of the revenue for the Cyber Security segment in the prior year did not align with the disclosure of the revenue in the underlying financial statements of the segment. The revenue from sale of finished goods was incorrectly disclosed as sale of goods manufactured and sale of design, development and project services. The revenue of sales of licences incorrectly included revenue earned from the support and maintenance services. The total revenue for the segment remains unchanged.*

	As previously reported	Restated
The revenue for the cyber security CGU has been restated as follows:		
Resale of finished goods	–	26 092
Sale of goods manufactured	17 756	–
Sales of licenses	80 875	36 970
Support and maintenance service	–	43 905
Sale of design, development and project services	8 336	–
	106 967	106 967

40. NET DEBT RECONCILIATION

	2020 R'000	2019 R'000
Net debt		
Cash and cash equivalents	**82 606**	37 478
Borrowings (including overdraft)	**(64 993)**	(76 490)
Lease liabilities	**(30 220)**	–
Net debt	**(12 607)**	(39 012)

	Cash and cash equivalents R'000	Lease liabilities R'000	Borrowings R'000	Total R'000
Net debt as at 1 April 2019	**37 478**	**–**	**(76 490)**	**(39 012)**
Cash flows	**42 594**	**3 963**	**11 497**	**58 054**
Foreign exchange adjustment	**2 534**	**–**	**–**	**2 534**
Right-of-use assets recognised	**–**	**(34 183)**	**–**	**(34 183)**
Net debt as at 31 March 2020	**82 606**	**(30 220)**	**(64 993)**	**(12 607)**

	Cash and cash equivalents R'000	Borrowings due within 1 year R'000	Borrowings due after 1 year R'000	Total R'000
Net debt as at 31 March 2018	41 254	(9 461)	(27 788)	4 005
Cash flows	3 386	24 739	652	28 777
New borrowings raised	–	(8 683)	(49 355)	(58 038)
Interest charged	–	(6 594)	–	(6 594)
Foreign exchange adjustment	(7 162)	–	–	(7 162)
Transfer to current borrowings	–	(43 523)	43 523	–
Net debt as at 31 March 2019	37 478	(43 522)	(32 968)	(39 012)

41. RELATED PARTIES

Relationships

Subsidiaries (wholly owned)	Etion Connect (Pty) Ltd
	Etion Create (Pty) Ltd
	Law Trusted Third Party Services (Pty) Ltd
	Optelix (Pty) Ltd
	Parsec Holdings (Pty) Ltd
	Parsec Properties (Pty) Ltd
	Quadsoft (Pty) Ltd
	Redline Telecommunications SA (Pty) Ltd
Joint venture	Electronic DNA (Pty) Ltd
Directors	Refer to note 32 for details of the directors

	2020 R'000	2019 R'000
Related party balances		
Loan accounts – Owing (to) by related parties		
Electronic DNA (Pty) Ltd	**2 304**	2 330
Number of shares held directly by related parties		
T Daka	**45 062 745**	45 062 745
CF Maherry	**16 686 356**	16 686 356
NS Mjoli-Mncube	**–**	220 877
Number of shares held indirectly by related parties		
T Daka	**102 674 375**	102 674 375
NS Mjoli-Mncube	**–**	4 000 000
CP Bester	**19 708 291**	19 708 291
R Willis	**1 549 342**	1 390 435
Related party transactions		
Recoveries received from related parties		
Electronic DNA (Pty) Ltd	**(4 795)**	(3 375)

42. SUBSEQUENT EVENTS

We are continually monitoring the COVID-19 outbreak and developments closely. The Group follows guidance from the World Health Organization and abides by the requirements as activated by local governments. Contingency plans have been implemented as far as possible to mitigate the potential adverse impact on the Group's employees and operations.

This impact of the pandemic has had a negative impact on the operations of the Group after year-end. The Group ceased its manufacturing activities within Etion Create with effect from 26 March 2020 due to mandatory government quarantine measures to contain the spread of the pandemic. Even though the Etion Create resumed its manufacturing activities on 24 April 2020, they are still not operating at normal capacity due to the occupational health and safety protocols to be maintained as prescribed by the government. Etion Digitise resumed operations from 1 June 2020, following the implementation of Lockdown Level 3.

While Etion Connect was successful in securing an essential services certification throughout the duration of the lockdown period, reduced customer demand and the marked contraction of the economy exacerbated by the COVID-19 pandemic has led to a marked deterioration in forecast revenue for the 2021 financial year and resultant decrease in profitability. As a proactive step, management has initiated the strategic review of the digital network solutions business to explore the opportunity, to implement a reorganisation of Etion Connect business with the objective of ensuring the long term sustainability and profitability of the business.

In contrast to the abovementioned businesses, LAWTrust has benefited from the COVID-19 pandemic with increased demand for its digital signing solutions. LAWTrust continued to operate throughout the lockdown, having been identified as an essential supplier by the Department of Home Affairs and the financial services sector. Furthermore, with the mass digitalisation of all many businesses driven by the COVID 19 pandemic, management foresees an uptick in interest for LAWTrust's cyber security product offerings.

As the events arising as a result of the government interventions in response to COVID-19 pandemic occurred before the reporting date with continued impacts after the reporting date, the Group considers this to be an adjusting post balance sheet event and accordingly the financial effects resulting from the impact of COVID-19 are reflected in the Group's financial statements at 31 March 2020.

42. SUBSEQUENT EVENTS continued

See below where the balances that were materially impacted as a result of the above have been discussed in detail as well as the financial impact on these balances.

(a) Impairment of Intangible assets

Refer to note 8 for details of the Group's impairment methodology, impairment losses, net carrying values of intangible assets, and key assumptions and sensitivity analysis. As a result of the pandemic, and containment measures put in place by various governments after the reporting date, the following factors had a direct impact on the forecasted cash flows used in determining the recoverable amount of goodwill related to the Safety and Productivity Solutions (SPS), Digital Network Systems (DNS), Original Design Manufacturing (ODM) and Cyber security CGU:

- Increased demand for Digital Signing solutions and Cyber security products and solutions offered by LAWTrust.
- Business interruptions due to supply chain delays and longer lead-times as a result of restrictions imposed on the imports of goods in Etion Create and Etion Connect.
- Possible postponements of orders by Etion Create and Etion Digitise customers considering current uncertainty.
- Margin pressures and foreign exchange losses resulting from fluctuations in the ZAR/USD exchange rate in Etion Connect.
- Potential working capital shortfalls due to delay in receipts from customers particularly State Owned Entities (SOEs).
- Cost saving initiatives implemented throughout the Group including deferral of annual salary increases and a freeze in new recruitment.
- Potential reduction in Etion Create and Etion Connect workforce due to capacity restrictions imposed by the government Lockdown regulations.
- Suspension of operations in the SPS business under Level 5 and Level 4 lockdown regulations.

As detailed in note 36 (Going Concern) a three-tiered COVID-19 scenario analysis, capturing the impacts of the abovementioned factors, was performed for each CGU in the Group to determine a range of risk adjusted weighted cash flows. This analysis reflects the impact of increased volatility in the forecast cash flows to determine the sensitivity of the asset value to the impacts resulting from the outbreak of COVID-19.

These risk adjusted weighted cash flows were incorporated in the value-in-use calculations performed to assess the recoverable amount of the goodwill related to the SPS, ODM and Cyber security CGU. Based on the assessment performed, the recoverable amount was still determined to be higher than the carrying value as at 31 March 2020 and no impairment loss was recorded. A sensitivity analysis was performed to further substantiate the recoverable amount of goodwill and this is disclosed in Note 8.

Similarly, these risk adjusted weighted cash flows were also incorporated in the value-in-use calculations performed to assess the recoverable amount of the goodwill related to the DNS CGU. Based on the assessment performed, the recoverable amount was determined to be lower than the carrying value as at 31 March 2020 and an impairment loss of R25.2 million was recognised. Refer to Note 8 for more detail.

(b) Inventory

While the enforcement of the nationwide lockdown may have resulted in further risk in determining the net realisable value of inventory considered slow-moving but viable within Etion Connect, there has been adequate expression of customer demand and movement in these products subsequent to year-end to consider the current provisioning and write down to be appropriate.

Furthermore, management has reviewed the inventory holdings of the other business in the Group and have determined the proposed selling price to be in excess of the cost. Refer to Note 12 for details of the inventory holdings.

(c) Allowance for expected credit losses

Refer to note 5 (b), 11, 13 and 14 for details of the Group's methodology and critical accounting estimates and judgements applied in determining the allowance for expected credit losses on trade receivables, other financial assets, contract assets and related party loan receivables.

The advent of COVID-19 has had a fundamental impact on the economy in general with an exaggerated impact on credit risk. Moody's Analytics updated their forecasts to reflect this risk by considering the possible spread of the epidemic through the country, the economic impact of the epidemic including measures taken to prevent its spread and measures taken by the government to ameliorate the economic impact. They recommend continuing to apply their Baseline, Stronger Near-Term Rebound (S1), and Moderate Recession (S3) forecast sets weighted 40%, 30%, 30% respectively for a forward-looking adjustment for the purposes of IFRS 9. These scenarios have been adjusted to reflect the change in risk.

The debtors book was assessed based on the industries in which our customers operate as well as reviewing various media platforms to ascertain whether any of the Group's customers or their industries were at risk of being impacted by COVID-19. The Group also considered any specific communications from customers that would cause concern around their ability to meet their short term obligations. No such communications were received. Furthermore the Group has monitored collections post reporting date which on the whole have been strong.

The Group has not granted extended payment terms to any of its customer and has not received any formal requests from customers in this regard, but anticipates that the economic consequences driven by measures to curb the outbreak of COVID-19 is expected to negatively affect certain debtors' ability to pay which may in turn increase the expected credit loss recognised on these debtors. Changes to the credit risk of specific debtors based on information available subsequent to year-end, have been accounted for in the judgemental overlay applied by management as detailed above.

The Group has not obtained any guarantees for amounts due from customers and has not received any advance payments or deposits to use as collateral for debtors. Refer to Note 13 and 14 for details of the Group's expected credit loss calculations and the impact on the above on the expected credit loss recognised at reporting date.

(d) Property, plant and equipment and right-of-use assets

While the indicators of impairment as noted in IAS 36.12(a)-(h) may be triggered in respect to property, plant and equipment and right-of-use assets due to the effects of COVID-19, based on the value in use calculations performed for Safety and Productivity Solutions (SPS), Digital Network Systems (DNS), Original Design Manufacturing (ODM) and Cyber security CGU there is no evidence to suggest the recognition an impairment loss, other than that related to goodwill as detailed in note 8 and note 42 (a), in respect to these assets held by the Group at year-end.

Christi Maherry resigned as an executive director to the Board of Etion with effect from 30 August 2020.

No other matter or circumstance has occurred subsequent to year but before the financial statements were issued that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the entity at the reporting date.

43. INTERESTS IN SUBSIDIARIES

Name of Company	Country of incorporation	% holding 2020	% holding 2019
Direct holding			
Etion Connect (Pty) Ltd	South Africa	**100**	100
Etion Create (Pty) Ltd	South Africa	**25**	25
Law Trusted Third Party Services (Pty) Ltd	South Africa	**100**	100
Parsec Holdings (Pty) Ltd	South Africa	**100**	100
Quadsoft (Pty) Ltd	South Africa	**100**	100
Redline Telecommunications SA (Pty) Ltd	South Africa	**20**	20
Indirect holding:			
Through Parsec Holdings (Pty) Ltd			
Parsec Properties (Pty) Ltd	South Africa	**100**	100
Redline Telecommunications SA (Pty) Ltd	South Africa	**80**	80
Optelix (Pty) Ltd	South Africa	**100**	100
Etion Create (Pty) Ltd	South Africa	**75**	75

Shareholder **analysis**

	Number of shareholdings	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	411	26.60	147 258	0.03
1 001 – 10 000 shares	459	29.71	2 140 991	0.38
10 001 – 100 000 shares	446	28.87	17 815 603	3.16
100 001 – 1 000 000 shares	182	11.78	52 863 153	9.37
1 000 001 shares and over	47	3.04	491 444 028	87.07
Total	1 545	100.00	564 411 033	100.00
Distribution of shareholders				
Banks/brokers	8	0.52	6 532 701	1.16
Close corporations	19	1.23	5 495 920	0.97
Endowment funds	2	0.13	3 745	0.00
Individuals	1 396	90.37	168 271 115	29.82
Insurance companies	1	0.06	1 685 236	0.30
Mutual funds	5	0.32	33 805 179	5.99
Other corporations	7	0.45	747 303	0.13
Private companies	42	2.72	139 338 540	24.69
Private equity	1	0.06	78 000 000	13.82
Retirement funds	1	0.06	242 253	0.04
Trusts	63	4.08	130 289 041	23.08
Total	1 545	100.00	564 411 033	100.00
Public/non-public shareholders				
Non-public shareholders	11	0.48	303 182 217	53.72
Directors and associates of the Company	6	0.16	185 681 109	32.90
Exco, subsidiary directors and management	4	0.16	39 501 108	7.00
Strategic holders holding more than 10%	1	0.16	78 000 000	13.82
Public shareholders	1 534	99.52	261 228 816	46.28
Total	1 545	100.00	564 411 033	100.00
Beneficial shareholders holding 3% or more				
Daka, T			147 737 120	26.18
Clive Douglas Investments			78 000 000	13.82
Investec			25 581 475	4.53
Montshepetsa Boshego Family Trust			25 375 004	4.50
CNR Trust			21 814 752	3.87
P&V Trust			21 814 752	3.87
Coen Bester Trust			19 708 291	3.49
Total			340 031 394	60.25

BREAKDOWN OF NON-PUBLIC HOLDINGS

	Number of shares	%
Directors		
Daka, T	**147 737 120**	**26.17**
Tedaka Investments (Pty) Ltd	**102 674 375**	**18.19**
Daka, T	**45 062 745**	**7.98**
Maherry, CF	**16 686 356**	**2.96**
Maherry, CF	**16 686 356**	**2.96**
Bester, CP	**19 708 291**	**3.49**
Coen Bester Trust	**19 708 291**	**3.49**
Willis, RC	**1 549 342**	**0.27**
Willis Family Trust	**1 549 342**	**0.27**
Total	**185 681 109**	**32.89**
Subsidiary directors and management		
Pelser, P	**21 814 752**	**3.87**
P&V Trust	**21 814 752**	**3.87**
Maherry, M	**16 686 356**	**2.96**
Maherry, M	**16 686 356**	**2.96**
Lamprecht, BC	**1 000 000**	**0.18**
Burt Christiaan Lamprecht	**1 000 000**	**0.18**
Total	**39 501 108**	**7.01**
Strategic holders holding more than 10%		
Conexus Capital Growth Fund – Etion	**78 000 000**	**13.82**
Total	**78 000 000**	**13.82**

BREAKDOWN OF BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE

	Number of shares	%
Daka, T	**147 737 120**	**26.17**
Tedaka Investments (Pty) Ltd	**102 674 375**	**18.19**
Daka, T	**45 062 745**	**7.98**
Clive Douglas Investments	**78 000 000**	**13.82**
Conexus Capital Growth Fund – Etion	**78 000 000**	**13.82**
Investec	**25 581 475**	**4.53**
Investec Wealth & Investment BCI Dynamic Equity Fund	**25 581 475**	**4.53**
Montshepetsa Boshego Family Trust	**25 375 004**	**4.50**
Montshepetsa Boshego Family Trust	**25 375 004**	**4.50**
CNR Trust	**21 814 752**	**3.87**
CNR Trust	**21 814 752**	**3.87**
P&V Trust	**21 814 752**	**3.87**
P&V Trust	**21 814 752**	**3.87**
Coen Bester Trust	**19 708 291**	**3.49**
Coen Bester Trust	**19 708 291**	**3.49**
Total	**340 031 394**	**60.25**

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