

Unaudited interim
condensed consolidated
financial statements
for the six months ended 31 January 2020

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About EOH

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

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

The Group's 8 400 employees deliver services to over 5 000 enterprise customers across all major industries throughout South Africa, Africa, Europe and the Middle East.

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

The EOH Purpose

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

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

Commentary

“Our key businesses have delivered sound performances demonstrated by improved gross margins over the reporting period. We have made good progress on cost management projects and achieved both our disposal and closure targets resulting in access to cash and a continued simplification of the business.

“Our focus remains on further reducing our debt burden and driving cost efficiencies, notwithstanding the challenges brought by COVID-19.” Stephen van Coller, CEO

SALIENT FEATURES

- Sound performances from key businesses
- Improved gross profit margins
- Strong and improving cash balances
- Stable core revenue and customer base
- Key financial indicators:
 - o Total revenue – R6 354 million
 - o Total gross profit margin – 24%
 - o Total normalised EBITDA – R405 million
 - o Total cash balances of R826 million (R950 million as at 2 April 2020)

OPERATIONAL OVERVIEW

EOH is 12 months into an anticipated two-year turnaround plan. Following the reputational crisis of the last financial year, the Group is pleased to see stabilisation in its customer base and core revenues. The management team’s highly visible and transparent actions in establishing robust corporate governance structures across the Group and further ensuring accountability for past transgressions has gone a long way to avoiding both government and BUSA blacklisting. This investigation is now complete.

The themes introduced at the full-year results in October 2019, are retained as a backdrop for the six-month period ended 31 January 2020 and comprise:

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

Evolving business model

The business was initially configured into three key pillars, namely iOCO, NEXTEC and IP as part of an evolving transition of the business to a sustainable future. Further evolution will ultimately see the Group integrated into a single ICT business under the iOCO umbrella. Since 31 January 2019 more than 40 businesses have been sold for a value of R1 170 million or closed across the Group and there has been significant traction on the rationalisation of legal entities.

iOCO

The future iOCO cluster is currently being and will continue to be managed around five core business lines which will be able to execute end-to-end solutions for all clients across the IT spectrum. These core businesses effectively make up approximately 56% of current total revenue and over 61% of total gross profit. The five main business lines, include:

- Solutions
- Technology
- Advisory and consulting
- Digital industries
- Manage & Operate and Connectivity

NEXTEC

NEXTEC comprises a diverse set of businesses across consulting and engineering offerings. We have invested considerable time and focus on this cluster which remains challenging. Following an extensive review, we have made significant progress in differentiating between businesses which we believe to be a strategic fit for iOCO and those which will potentially be liquidated or sold. Once the review process is complete, the NEXTEC business, which makes up 31% of the Group's total revenues currently, will no longer form a significant part of the Group. More than 47% of NEXTEC's total revenue is currently classified as discontinued.

IP

The IP grouping consists of businesses which have developed proprietary software and solutions for customers. These businesses, which contribute 13% of the Group's total revenues, historically had higher growth rates and better gross profit margins than the other two groupings. A decision was taken to dispose of these assets as part of a strategy to deleverage the business and all but one, Sybrin which did not qualify for the IFRS definition, are therefore classified as discontinued.

Clear path to extinguishing legacy cash draining issues

The current management team has been building the future business while simultaneously dealing with reputational issues. Now that these are firmly behind the Group, management can focus on additional legacy issues that remain a cash drain on the business and are confident of substantially resolving these in the next 12 to 18 months. They include:

Legacy contracts

Included in the iOCO business grouping are eight poorly contracted legacy public sector contracts. These are expected to be substantially resolved by the end of the calendar year. A total of R188 million in negative EBITDA from these legacy contracts was added back to calculate total normalised EBITDA. This is significantly lower than the R370 million reported in the prior period.

A number of EPC contract businesses, destined to be wound down or sold, as well as onerous contracts provided for, contributed negatively for a total value of R83 million to EBITDA and were also added back to total normalised EBITDA.

Once-off settlement costs

EOH cash settled a total of R227 million in OEM settlements, severance costs, disposal and advisory cost during the six-month period. While advisory costs are expected to continue during the next six-month period, these are largely linked to the disposal of assets and most of the meaningful costs in respect of OEM settlements and the ENS investigation are now behind us. A total of R130 million of these costs were added back when total normalised EBITDA was calculated.

Cost optimisation

Driving additional cost savings from legacy overheads, management cost structures, facilities and procurement has been a key focus area for the 2020 financial year. To date we have seen two senior management structures unwound and two are still being consolidated to accommodate the more focused and integrated business.

We have also seen good progress in our property optimisation programme with 45 building exits planned for the financial year, of which 31 lease exits have already been completed. Efficiencies have been identified in procurement and we are fast-tracking the use of centralised approved service providers. We have seen a reduction in employees to ~8 400 from ~10 500 at the end of the 2019 financial year as a result of the disposals completed over the period, retrenchments as well as normal attrition.

We will continue to look for opportunities where further cost savings can be realised and have already identified a further R100 million to R250 million in potential savings to be realised by the end of the 2021 financial year, which should significantly improve the cost structure for the business going forward. This is in addition to short-term liquidity measures implemented as part of the COVID-19 response.

Deleveraging imperative

Due to the heavy interest burden of the legacy debt, deleveraging the business through disposals has been a top priority for management.

The deleveraging plan with lenders has been adjusted and extended by making 31 July 2020 the first target date to deleverage by R500 million (previously 31 January 2020). The Group had deleveraged by R306 million at 31 January 2020 and by R362 million at the reporting date, with a further R68 million available for this purpose in a ring-fenced cash account. During December 2019 lenders gave EOH access to R236 million of disposal proceeds originally destined for deleveraging.

The revised deleveraging plan marginally increases the amount of the total deleveraging committed to lenders from R1 500 million to R1 600 million and extends the date for this to be completed to 28 February 2021 (previously 31 January 2021).

Deleveraging continues to rely on the disposal of assets. The larger disposals of Denis, Information Services, Syntell and Sybrin are progressing well. Although the full impact of COVID-19 on these timelines is not fully visible, these processes remain substantially on track.

While only indirectly associated with the deleveraging, the Group is in the advanced stages of implementing a cash management pooling system, which should ultimately improve the efficiency of cash across the Group and reduce the carry cost of holding these cash balances.

Ethical leadership team with broad skills across finance and IT

We are pleased that the Group has continued to attract and retain top talent as we build a diverse, ethical and talented workforce. Ensuring that there is a breadth of skill at EOH will enable the development and implementation of solutions that add value to our clients. In line with this intent, the leadership team has been enhanced by the addition of two new members to the executive committee with experience in the ICT sector spanning over 20 years each. We now have a leadership team in place with broad skills across finance and IT. Furthermore, we have retained employees with strong technological expertise to run the various business units and ensure that we maintain our value proposition through the successful execution of our strategy. We continue to explore the right balance of incentives for the organisation.

The right people are also operating within a significantly improved governance, risk and control environment. A number of digital transformation projects saw the implementation of improved systems and consequently improved integrity and quality of information for both financial and non-financial purposes. While there is more to do here, significant progress has been made and the benefits to decision making and understanding of the complexities of the business are tangible.

COVID-19

Subsequent to the reporting date there has been a global outbreak of COVID-19. On 15 March 2020, the President of the Republic of South Africa announced a national state of disaster and on 23 March 2020 a 21-day National Lockdown was announced to run from midnight on 26 March 2020 to midnight on 16 April 2020. These actions are expected to have a financial impact on the Group going forward. The core ICT business is classified as an essential service and will continue operating during the lockdown period.

The Group has a COVID-19 management team in place consisting of all the representatives from the executive committee as well as key operational and support functions. The team monitors the situation on a daily basis and ensures that adequate risk management and mitigation actions are taken, as well as appropriate communication and engagement with clients, staff and other stakeholders.

Being systemic to South Africa's IT backbone creates significant responsibility for the Group during COVID-19 to ensure it remains robust in order to continue providing key services to its 5 000 long-term clients. These include many banks in South Africa and the rest of Africa, telecommunication companies, Eskom, municipalities and government agencies. For this reason, the Board and management of EOH felt it necessary to take proactive steps to ensure EOH is prudent in these times of uncertainty. The Group is also at the forefront of providing cutting edge medical solutions through companies such as Nuvoteq and TCD.

As a result, EOH has initiated a number of initiatives in this regard. These include:

1. The CEO and executive committee taking a reduction of 25%
2. A proposed 20% reduction across the board in cash salaries, with the exception of those earning less than approximately R250 000 per annum (in consultation with clients and staff)
3. Negotiating rent holidays
4. A review of all fixed-term and consultant contracts
5. Reassessing the retirement policy for those over 65 years of age
6. A review of variable pay elements including reimbursive travel and overtime
7. A review of discretionary spend on travel, entertainment and events

BUSINESS PERFORMANCE

Total revenue decreased 21,8% (continuing 17,4%) to R6 354 million (continuing R4 544 million) when compared to the prior comparative period, mainly as a result of lower hardware and software sales as well as legacy public sector ERP implementation deals not repeated in the current period. The prior period comparative is also skewed by the inclusion of CCS and other businesses disposed of in discontinued revenue. Encouragingly, managed services among our core clients, remained relatively flat. The slowdown in the economy also contributed to the decline in revenue with EOH's legacy issues only having a small impact.

Total gross profit margin improved to 23,6% (continuing 23,5%) from 19,6% (continuing 15,8%) in the previous comparable period. This is mainly due to a reduced contribution from hardware sales as well as improved efficiency in the iOCO businesses.

Total operating expenses decreased 31,5% to R2 284 million (continuing R1 596 million) from R3 335 million (continuing R2 778 million) in the prior period, largely driven by lower provisions and write-offs. The Group saw a significant decline in impairments and other losses from the continuing business from R1 779 million in the prior period to R688 million in the current period. These are necessary as part of the clean-up of the balance sheet.

Total normalised EBITDA for the period is R405 million (HY 2019: R675 million) and continuing EBITDA is R280 million (HY 2019: R435 million) as EBITDA losses from non-core business lines reduced to R270 million from R585 million in the prior comparative period largely as a result of improved management of the eight poorly contracted legacy public sector contracts. The NEXTEC business normalised EBITDA was negative during the period.

Headline loss per share from continuing and discontinued operations was 395 cents (HY 2019: 827 cents) while headline loss per share from continuing operations alone was 381 cents (HY 2019: 840 cents).

Historically there was a lack of focus on working capital management with large tranches of cash tied up in debtors. During the prior year more than R400 million was realised from the debtors book and balances at the half year continued to be well managed reducing to R2 994 million from R4 125 million at the prior comparative period and R3 145 million at the full year. Trade payables decreased by R447 million over the six-month period to R2 558 million as the Group did not actively stretch payables over the half year.

Cash generated from operations after changes in working capital was R31 million (HY 2019: R82 million), but needs to be considered in light of the R227 million of once-off payments over the reporting period. Cash conversion of total normalised EBITDA, when removing these once-off costs and the impact of non-core businesses, is approximately 65%.

OUTLOOK

The core value proposition is that the iOCO business will be the preferred digital transformation partner for customers due to its end-to-end integration capabilities and highly skilled individuals. The services the Group provides are systemic to South Africa's economy, providing support into telecommunication companies, financial services in South Africa and beyond as well as assisting many municipalities and core government functions. We are part of the fabric of South African business and we are well positioned to play a pivotal role in the digital future of customers, both in South Africa and beyond. The management team, along with employees, have implemented and proposed a wide range of initiatives to reduce costs dramatically as part of our collective contribution to assisting corporate South Africa through the current crisis. We are in the process of consulting our customers and employees to finalise these initiatives.

The Group remains committed to ethical leadership and being a force for good in society through its people.

Approved on behalf of the Board of directors of EOH,

Stephen van Coller
Chief Executive Officer

Interim condensed consolidated statement of profit or loss and other comprehensive income

for the six months ended 31 January 2020

<i>Figures in Rand thousand</i>	<i>Notes</i>	Unaudited for the six months to 31 January 2020	Unaudited restated** for the six months to 31 January 2019
Continuing operations			
Revenue	6	4 544 173	5 502 080
Cost of sales		(3 477 294)	(4 634 273)
Gross profit		1 066 879	867 807
Net financial asset impairment losses	8	(198 683)	(497 691)
Operating expenses		(1 596 412)	(2 778 489)
Operating loss before interest and equity-accounted loss		(728 216)	(2 408 373)
Investment income		14 002	16 936
Share of equity-accounted profit/(loss)		5 486	(9 501)
Finance costs		(189 598)	(199 164)
Loss before taxation		(898 326)	(2 600 102)
Taxation		10 626	(87 736)
Loss for the period from continuing operations		(887 700)	(2 687 838)
(Loss)/profit for the period from discontinued operations*	9	(275 883)	25 708
Loss for the period		(1 163 583)	(2 662 130)
Other comprehensive income			
Exchange differences on translating foreign operations (may be subsequently reclassified to profit or loss)		107 674	28 236
Total comprehensive loss for the year		(1 055 909)	(2 633 894)
Loss attributable to:			
Owners of EOH Holdings Limited		(1 159 108)	(2 658 770)
Non-controlling interest		(4 475)	(3 360)
		(1 163 583)	(2 662 130)
Total comprehensive loss attributable to:			
Owners of EOH Holdings Limited		(1 061 671)	(2 637 860)
Non-controlling interest		5 762	3 966
		(1 055 909)	(2 633 894)
From continuing and discontinued operations (cents)			
Loss per share		(687)	(1 689)
Diluted loss per share		(687)	(1 689)
From continuing operations (cents)			
Loss per share		(527)	(1 702)
Diluted loss per share		(527)	(1 702)

* Refer to note 5 – Restatement of interim condensed consolidated financial statements for the impact on profit or loss.

** Comparative figures previously reported have been amended to reflect continuing operations prevailing for the period ended 31 January 2020.

Interim condensed consolidated statement of financial position

as at 31 January 2020

<i>Figures in Rand thousand</i>	<i>Notes</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
ASSETS			
Non-current assets			
Property, plant and equipment	10	654 471	481 674
Intangible assets	10	288 758	488 974
Goodwill	11	1 354 802	1 850 854
Equity-accounted investments	12	195 928	228 067
Other financial assets		29 421	11 610
Deferred taxation		85 873	245 278
Lease receivables		91 123	72 638
		2 700 376	3 379 095
Current assets			
Inventory		145 296	251 456
Other financial assets		56 606	76 718
Current taxation receivable		65 657	106 775
Lease receivables		59 817	52 916
Trade and other receivables		2 631 612	3 164 150
Cash and cash equivalents		518 811	1 048 583
		3 477 799	4 700 598
Assets held for sale	13	2 097 564	1 759 357
Total assets		8 275 739	9 839 050
EQUITY AND LIABILITIES			
Equity			
Stated capital	15	4 249 909	4 239 621
Shares to be issued to vendors		210 871	358 733
Other reserves		653 962	547 914
Retained earnings		(4 228 185)	(3 230 193)
Equity attributable to the owners of EOH Holdings			
Limited		886 557	1 916 075
Non-controlling interest		44 621	40 621
		931 178	1 956 696
Liabilities			
Non-current liabilities			
Other financial liabilities	16	2 026 727	2 255 825
Lease liabilities		229 944	28 030
Deferred taxation		107 453	389 416
		2 364 124	2 673 271
Current liabilities			
Other financial liabilities	16	920 934	1 068 132
Current taxation payable		73 852	97 988
Lease liabilities		116 784	29 331
Trade and other payables		2 558 728	3 006 403
Provisions		240 087	173 400
Deferred income		250 648	268 949
		4 161 033	4 644 203
Liabilities directly associated with the assets held for sale	13	819 404	564 880
Total liabilities		7 344 561	7 882 354
Total equity and liabilities		8 275 739	9 839 050

Interim condensed consolidated statement of changes in equity

for the six months ended 31 January 2020

<i>Figures in Rand thousand</i>	Stated capital	Shares to be issued to vendors	Other reserves	Retained earnings	Total attributable to the owners of EOH	Non-controlling interest	Total equity
Audited balance at 1 August 2018	3 443 223	809 975	663 122	1 002 714	5 919 034	17 788	5 936 822
Loss for the period (restated)*	–	–	–	(2 658 770)	(2 658 770)	(3 360)	(2 662 130)
Other comprehensive income	–	–	20 910	–	20 910	7 326	28 236
Issue of shares	762 715	(43 380)	–	–	719 335	–	719 335
Non-controlling interest acquired	–	–	–	–	–	(300 448)	(300 448)
Movement in treasury shares	(9 824)	–	(2 205)	–	(12 029)	–	(12 029)
Transfer within equity***	–	(67 661)	–	67 661	–	–	–
Share-based payments	–	–	43 380	157 445	200 825	–	200 825
Restated unaudited* balance at 31 January 2019	4 196 114	698 934	725 207	(1 430 950)	4 189 305	(278 694)	3 910 611

Audited balance at 1 August 2019	4 239 621	358 733	547 914	(3 230 193)	1 916 075	40 621	1 956 696
Effect of adoption of new standards (refer to note 4)**	–	–	–	30 327	30 327	–	30 327
Restated balance at 1 August 2019	4 239 621	358 733	547 914	(3 199 866)	1 946 402	40 621	1 987 023
Loss for the period	–	–	–	(1 159 108)	(1 159 108)	(4 475)	(1 163 583)
Other comprehensive income	–	–	97 437	–	97 437	10 237	107 674
Non-controlling interest disposed	–	–	–	–	–	1 981	1 981
Movement in treasury shares	10 288	(4 957)	(6 638)	–	(1 307)	–	(1 307)
Consideration – EOH shares forfeited	–	(12 116)	–	–	(12 116)	–	(12 116)
Transfer within equity***	–	(130 789)	–	130 789	–	–	–
Share-based payments	–	–	15 249	–	15 249	–	15 249
Dividends paid to minority	–	–	–	–	–	(3 743)	(3 743)
Unaudited balance at 31 January 2020	4 249 909	210 871	653 962	(4 228 185)	886 557	44 621	931 178

Notes

* Refer to note 5 – Restatement of interim condensed consolidated financial statements for the impact on profit or loss and retained earnings.

** Refer to note 4 – Changes in accounting policies for the impact of the adoption of IFRS 16.

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

Interim condensed consolidated statement of cash flows

for the six months ended 31 January 2020

<i>Figures in Rand thousand</i>	Notes	Unaudited for the six months to 31 January 2020	Unaudited for the six months to 31 January 2019
Cash generated from operations	18	30 971	82 365
Investment income		19 829	22 591
Finance costs		(185 451)	(189 489)
Taxation paid		(170 541)	(166 987)
Net cash outflow from operating activities		(305 192)	(251 520)
Cash flows from investing activities			
Additions to property, plant and equipment		(65 952)	(107 731)
Proceeds on the sale of property, plant and equipment and intangible assets		–	13 779
Intangible assets acquired		(68 091)	(97 917)
Net cash inflow/(outflow) from acquisition/disposal of businesses	14	55 673	(1 281)
Cash inflow relating to other financial assets		492	117 894
Net cash outflow from investing activities		(77 878)	(75 256)
Cash flows from financing activities			
Proceeds from the issue of shares		–	720 282
Proceeds from other financial liabilities		–	300 790
Repayment of other financial liabilities		(99 927)	(1 120 690)
Lease payments		(52 783)	(36 277)
Net cash outflow from financing activities		(152 710)	(135 895)
Net decrease in cash and cash equivalents		(535 780)	(462 671)
Cash and cash equivalents at the beginning of the period		1 358 956	1 418 319
Current assets held for sale	13	(307 596)	–
Foreign currency translation		3 231	1 458
Cash and cash equivalents at the end of the period		518 811	957 106

Segment results

for the six months ended 31 January 2020

The reportable segments of the Group have been identified based on the nature of the business activities. A significant amount of time has been spent refining and revising the strategy of EOH. A major focus included the critical analysis of the portfolio; both in terms of refining the Group's focus and clarifying drivers of value over the longer term. This resulted in a more streamlined business, comprising three major segments with clearer alignment of focus and groupings of value. This basis is representative of the internal structure of the Group for management purposes. The Chief Operating Decision Maker ('CODM') is EXCO.

iOCO consists of the Information and Communications Technology ('ICT') operations in South Africa and internationally.

The iOCO business has performed well evidenced by a stabilisation of the core business and the contracting sales pipeline with gross profit margins above 20% for the period under review, before taking account of the public sector contracts mentioned above. The public sector remains important for the Group, however, eight of the public sector projects remain problematic out of the 54 originally identified as requiring attention. Management is actively working with these customers to remedy the pertinent issues.

NEXTEC consists of Industrial Technologies.

NEXTEC remains challenging, with the majority of these businesses unlikely to form part of the Group going forward. More than 40 businesses have been sold or closed since 31 January 2019.

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

The IP businesses also performed well over the period, recording sound revenue growth as well as retaining gross profit margins above 30%. As has been previously communicated to the market, the majority of these businesses are being disposed of in order to normalise the capital structure and are classified as discontinued. Significant progress in this regard has been made. Non-binding offers have been received and the process is ongoing.

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

Revenue and normalised EBITDA from continuing operations:

Figures in Rand thousand	Unaudited for the six months ended 31 January 2020					Unaudited restated* for the six months ended 31 January 2019				
	iOCO	NEXTEC	IP	Recon- ciliation^	Total	iOCO	NEXTEC	IP	Recon- ciliation^	Total
Revenue										
External	3 575 754	1 980 993	796 831	-	6 353 578	4 693 444	2 547 438	887 104	-	8 127 986
Intersegment	100 351	135 999	789	(237 139)	-	84 301	134 630	23 551	(242 482)	-
Discontinued operations	342 059	933 251	534 095	-	1 809 405	628 151	1 225 750	772 005	-	2 625 906
Continuing revenue	3 334 046	1 183 741	263 525	(237 139)	4 544 173	4 149 594	1 456 318	138 650	(242 482)	5 502 080
Gross profit										
Gross profit	922 534	274 012	322 485	(21 397)	1 497 634	848 856	375 920	381 932	(16 145)	1 590 563
Discontinued operations	128 649	55 630	246 476	-	430 755	226 122	178 545	318 089	-	722 756
Continuing gross profit	793 885	218 382	76 009	(21 397)	1 066 879	622 734	197 375	63 843	(16 145)	867 807
Continuing gross profit (%)	23,8%	18,4%	28,8%		23,5%	15,0%	13,6%	46,0%		15,8%
Normalised EBITDA**	212 823	(32 978)	14 761	(124 669)	69 937	123 530	(143 672)	47 836	(177 664)	(149 970)
Non-core business lines to be closed~	187 744	22 754	-	-	210 498	370 142	214 582	-	-	584 724
Normalised EBITDA	400 567	(10 224)	14 761	(124 669)	280 435	493 672	70 910	47 836	(177 664)	434 754
Normalised EBITDA (%)	12,0%	(0,9%)	5,6%		6,2%	11,9%	4,9%	34,5%		7,9%

* Comparative figures previously reported have been amended to reflect continuing operations and segments prevailing for six months to 31 January 2020, as well as correction of prior period errors.

** Normalised EBITDA is defined as continuing losses before interest income and expense, tax, depreciation, amortisation, impairments, gains or losses on disposal of businesses and equity-accounted investments. Normalised EBITDA excludes once-off cash and non-cash items.

^ Reconciliation comprises elimination of intersegment transactions and includes head office expenses.

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

<i>Figures in Rand thousand</i>	31 January 2020	Restated* 31 January 2019
EBITDA reconciliation		
Operating loss before interest and equity-accounted losses from continuing operations	(728 216)	(2 408 373)
Depreciation	118 025	100 713
Amortisation	57 402	134 953
Impairment losses	152 452	1 334 569
Loss on disposal of assets	93 948	156 686
Share-based payments	16 807	200 825
VFA re-estimation	11 260	(20 715)
Income from joint venture	2 178	–
EBITDA	(276 144)	(501 342)
Impairment of inventory	14 090	43 996
Specific IFRS 9 impairments and provisions	149 245	199 300
Advisory and other	90 619	108 076
IFRS 15 adjustments	6 729	–
Retrenchment and settlement costs	36 260	–
Onerous contracts and other provisions	49 138	–
Normalised EBITDA**	69 937	(149 970)
Non-core business lines to be closed~	210 498	584 724
Normalised EBITDA from continuing operations	280 435	434 754

* Comparative figures previously reported have been amended to reflect continuing operations and segments prevailing for six months to 31 January 2020, as well as correction of prior period errors.

** Normalised EBITDA is defined as continuing losses before interest income and expense, tax, depreciation, amortisation, impairments, gains or losses on disposal of businesses and equity-accounted investments. Normalised EBITDA excludes once-off cash and non-cash items.

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

Notes to the interim condensed consolidated financial statements

for the six months ended 31 January 2020

1. REPORTING ENTITY

EOH Holdings Limited ('EOH' or the 'Company') is a holding company domiciled in South Africa that is listed on the JSE Limited under the category Technology: Software and Computer Services. EOH is one of the largest information and communications technology ('ICT') services provider in South Africa and is committed to providing the technology, knowledge, skills and organisational ability critical to the adaptation, development and growth of the markets it serves. The interim condensed consolidated financial statements of EOH, as at 31 January 2020 and for the six months ended 31 January 2020, comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's investments in associates and joint ventures.

2. STATEMENT OF COMPLIANCE

The interim condensed consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ('IFRS') and its interpretations adopted by the International Accounting Standards Board ('IASB') and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and contain at a minimum the information required by IAS 34: *Interim Financial Reporting*, the requirements of the Companies Act 71 of 2008 of South Africa and the JSE Limited Listings Requirements.

3. BASIS OF PREPARATION

The accounting policies and methods of computation applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the previous consolidated annual financial statements, other than for the adoption of IFRS 16 – Leases as described below.

The interim condensed consolidated financial statements do not include all the notes of the type normally included in a set of consolidated annual financial statements. Accordingly, this report is to be read in conjunction with the consolidated annual financial statements for the year ended 31 July 2019.

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

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

The comparative financial information in the interim condensed consolidated financial statements has been restated based on information available at 31 January 2020. Refer to notes 4 and 5 for further information.

The interim condensed consolidated financial statements have not been audited or reviewed by the Group's external auditor.

4. NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

The Group has applied the following standards and amendments for the first time to their annual reporting period commencing 1 August 2019:

IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has adopted IFRS 16 retrospectively from 1 August 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the standard's transitional provisions. The impact arising from the new leasing rules are therefore recognised in the statement of financial position on 1 August 2019. Right-of-use assets are measured at the amount of the lease liability on adoption. The Group has elected to apply the practical expedient to not reassess the lease definition.

The Group primarily has operating property leases, which has been impacted by the adoption of IFRS 16. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss and represent no change from the previous reporting period's accounting treatment. Short-term leases have a term of 12 months or less. Low-value assets comprise leases such as IT equipment (tablets and personal computers), office furniture or telephones. Non-lease components are recognised as an expense in operating expenses as they are incurred.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. At the date of transition, there was no indication that the right-of-use assets were impaired.

Operating lease commitments disclosed as at 31 July 2019 amounted to R414 million. On adoption of IFRS 16, these existing operating lease commitments, excluding short-term and low-value commitments, have now been recognised as right-of-use assets and obligations to make lease payments in the interim condensed consolidated statement of financial position. The Group has recorded the lease liability, measured at the present value of the remaining lease payments payable over the remaining lease term, discounted at an average incremental borrowing rate of 9.3%. This has resulted in an increase in current and non-current liabilities, and a corresponding increase in non-current assets of R367 million as at 1 August 2019. The total adjustment to retained earnings as at 1 August 2019, due to previously recognised operating lease straight-lining reserves at 31 July 2019, was R31 million.

The right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease term on a straight-line basis. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

5. RESTATEMENT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The previously reported January 2019 half-year results took in to account a number of required restatements due to transactions that appeared to have been processed incorrectly. Those January 2019 results were, however, prepared prior to the finalisation of the restatements, which finalisation only occurred during the year ended 31 July 2019. Consequently, the January 2019 results have now been restated to align with the final conclusions and restatements set out in the 2019 consolidated annual financial statements.

During the half-year reporting period ended 31 January 2019 and the year ended 31 July 2019, management identified a number of transactions that appeared to have been processed incorrectly in both the 2019 and prior periods; the impact of these transactions spanned various accounting topics, including revenue recognition, asset capitalisation and subsequent recovery, and timing of recognition of liabilities and other provisions for impairment.

During 2019, in assessing whether the identified adjustments should have been processed as prior period errors or recognised in the 2019 year, management considered whether the facts that gave rise to the adjustments existed in prior years, or whether those events only arose due to information that came to light in the 2019 year. The 2018 consolidated annual financial statements and the consolidated statement of financial position as at 1 August 2017 had been restated to correct the prior period errors. The 2019 interim condensed consolidated statement of profit or loss and other comprehensive income has also now been restated. As a result of the extent and complexity of the restatements required to correct these errors, management have grouped the restatements according to the nature of these errors.

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

Revenue

Under IAS 18 – Revenue, revenue could only be recognised once it was probable that the economic benefits associated with the transaction would flow to the seller and the amount of revenue could be measured reliably, among other requirements. A number of revenue transactions had been recognised in prior years, for which it was not probable that benefits would flow to the Group due to a lack of valid and enforceable rights to the benefits, as valid contracts or other binding agreements were not in place at the time. These transactions primarily related to arrangements in the public sector. The requirements to recognise revenue for these transactions under IAS 18 were not met in prior years, based on the facts and circumstances that existed in prior years. The Group had therefore corrected for these errors through the reversal of revenue, trade receivables and work-in-progress (unbilled revenue) balances in periods prior to 2019.

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

5. RESTATEMENT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

Internally generated intangible assets

IAS 38 – Intangible Assets distinguishes between research and development costs with regards to internally generated intangible assets. Costs related to research activities are expensed and costs related to development activities are capitalised if they meet certain specified criteria. Further, if an entity cannot distinguish the research phase from the development phase of an internal project, the entity treats the expenditure on that project as if it were incurred in the research phase only. The Group had capitalised certain costs incurred on internally generated intangible assets, for which the criteria for capitalisation as development costs had not been demonstrated in prior years. For the majority of these intangible assets, business plans had not been prepared and the ability of the assets to generate future economic benefits had not been demonstrated; the specified criteria set out in IAS 38 were therefore not met at the time of initial recognition of the intangible assets based on factors that existed at that time. The costs incurred should therefore never have been capitalised but, instead, recognised as research costs as incurred. Correction of this error had resulted in the reversal of capitalised intangible assets together with the reversal of any related amortisation of the capitalised intangible assets and an increase in research costs expensed in periods prior to 2019.

Inventory licences

IAS 2 – Inventories requires that for items to be capitalised as inventory, it should first meet the definition of an asset. The Conceptual Framework defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. Costs were incurred and capitalised as inventory in prior years even though it was doubtful, at the time of incurring the costs, that future economic benefits would flow to the Group; this relates largely to acquired licences that were assigned to specified potential customers which, once assigned, could only be sold to that potential customer, but for which the Group had no commitment from the potential customer that it would acquire the licence. Management believe that the costs incurred to acquire these licences should therefore have been recognised as an expense when incurred, taking into account the information that existed at the time of initial recognition. Accordingly, correction of this error had resulted in the reversal of inventory and an increase in expenses in periods prior to 2019.

Unrecorded liabilities/recoverability of assets

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

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

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

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

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

5. RESTATEMENT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued

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

Interim condensed consolidated statement of profit or loss and other comprehensive income (extract) for the six months ended 31 January 2019

Figures in Rand thousand	31 January 2019	Correction of prior period errors				Reclassified as discontinued operations (note 9)	Restated 31 January 2019
		Revenue	Internally generated intangible assets	Inventory	Unrecorded liabilities/recoverability of assets		
Continuing operations							
Revenue	8 428 280	(468 138)	-	-	-	(2 458 062)	5 502 080
Cost of sales	(6 761 030)	341 629	18 964	-	33 224	1 732 940	(4 634 273)
Gross profit	1 667 250	(126 509)	18 964	-	33 224	(725 122)	867 807
Net financial asset impairment losses	(513 986)	-	-	-	-	16 295	(497 691)
Operating expenses	(4 031 562)	-	365 864	42 916	316 946	527 347	(2 778 489)
Operating loss before interest and equity-accounted loss	(2 878 298)	(126 509)	384 828	42 916	350 170	(181 480)	(2 408 373)
Investment income	22 575	-	-	-	-	(5 639)	16 936
Share of equity-accounted loss	(13 950)	-	-	-	-	4 449	(9 501)
Finance costs	(203 246)	-	-	-	-	4 082	(199 164)
Loss before taxation	(3 072 919)	(126 509)	384 828	42 916	350 170	(178 588)	(2 600 102)
Taxation	(199 422)	-	-	-	-	111 686	(87 736)
Loss for the period from continuing operations	(3 272 341)	(126 509)	384 828	42 916	350 170	(66 902)	(2 687 838)
Loss for the period from discontinued operations	(41 194)	-	-	-	-	66 902	25 708
Loss for the period	(3 313 535)	(126 509)	384 828	42 916	350 170	-	(2 662 130)
Other comprehensive income	28 236	-	-	-	-	-	28 236
Total comprehensive income for the period	(3 285 299)	(126 509)	384 828	42 916	350 170	-	(2 633 894)
Loss attributable to:							
Owners of EOH Holdings Limited	(3 304 029)						(2 658 770)
Non-controlling interest	(9 506)						(3 360)
Total	(3 313 535)						(2 662 130)
Total comprehensive income attributable to:							
Owners of EOH Holdings Limited	(3 283 119)						(2 637 860)
Non-controlling interest	(2 180)						3 966
Total	(3 285 299)						(2 633 894)

5. RESTATEMENT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *continued*
Interim condensed consolidated statement of profit or loss and other comprehensive income
(extract) for the six months ended 31 January 2019 *continued*

	31 January 2019	Restated 31 January 2019
From continuing and discontinued operations (cents)		
Loss per share	(2 099)	(1 689)
Diluted loss per share	(2 099)	(1 689)
Headline loss per share	(993)	(827)
Diluted headline loss per share	(993)	(827)
From continuing operations (cents)		
Loss per share	(2 073)	(1 702)
Diluted loss per share	(2 073)	(1 702)
Headline loss per share	(973)	(840)
Diluted headline loss per share	(973)	(840)

The above restatements have no impact on any line item in the statement of financial position as at 31 July 2019 and therefore the statement of financial position at 31 July 2019 remains as previously reported. The restatement adjustments are all non-cash adjustments and therefore do not impact cash generated before working capital changes or any other line items on the interim condensed consolidated statement of cash flows.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

6. REVENUE

Disaggregated revenue

<i>Figures in Rand thousand</i>	Unaudited for the six months to 31 January 2020	Unaudited restated* for the six months to 31 January 2019
Revenue by sector		
Public sector	21%	16%
Private sector	79%	84%
Total	100%	100%
Major revenue types		
Hardware maintenance	53 286	45 792
Hardware sales	822 587	1 418 693
Managed services	1 624 181	1 680 058
Sale of goods – other	5 762	38 390
Services	2 970 756	3 661 331
Software/licence contracts	419 151	627 598
Software maintenance	411 416	487 462
Rentals	46 439	168 662
Total	6 353 578	8 127 986
Timing of revenue recognition		
Goods or services transferred to customers:		
– at a point in time	1 247 500	2 084 681
– over time	5 106 078	6 043 305
Total	6 353 578	8 127 986
Continuing operations	4 544 173	5 502 080
Discontinued operations	1 809 405	2 625 906
Total	6 353 578	8 127 986

* Refer to note 5 – Restatement of interim condensed consolidated financial statements for the impact on profit or loss.

7. HEADLINE LOSS PER SHARE

<i>Figures in Rand thousand</i>	Unaudited for the six months to 31 January 2020	Unaudited restated* for the six months to 31 January 2019
Loss attributable to owners of EOH Holdings Limited	(1 159 108)	(2 658 770)
<i>Adjusted for:</i>		
Loss on disposal of subsidiaries and property, plant and equipment	128 275	–
Loss on disposal of property, plant and equipment	6 591	–
Loss on disposal of subsidiaries sold (discontinued)	121 684	–
Loss on deemed disposal and disposal of subsidiaries and associates (continuing)	87 478	156 686
Impairment of goodwill	211 978	1 138 413
Impairment of equity-accounted investments: continuing operations	38 175	100 293
Impairment of equity-accounted investments: discontinued operations	24 430	–
Impairment of intangibles	4 489	95 863
Total tax effects on adjustments	(1 257)	(134 546)
Headline loss from continuing and discontinued operations	(665 540)	(1 302 061)
Loss attributable to owners of EOH Holdings Limited	(1 159 108)	(2 658 770)
Adjust for discontinued operations (note 9)	269 907	(19 562)
Continuing loss attributable to ordinary share holders	(889 201)	(2 678 332)
<i>Continuing operations adjustments:</i>		
Loss on disposal of property, plant and equipment	6 470	–
Loss on deemed disposal and disposal of subsidiaries	87 478	156 686
Impairment of assets	58	95 863
Impairment of goodwill	114 219	1 138 413
Impairment of equity-accounted investments	38 175	100 293
Total tax effect on adjustments	–	(134 546)
Headline loss from continuing operations	(642 801)	(1 321 623)

* Refer to note 5 – Restatement of interim condensed consolidated financial statements for the impact on profit or loss.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

7. HEADLINE LOSS PER SHARE continued

<i>Figures in Rand thousand</i>	Unaudited for the six months to 31 January 2020	Unaudited restated* for the six months to 31 January 2019
From continuing and discontinued operations (cents)		
Headline loss per share	(395)	(827)
Diluted headline loss per share	(395)	(827)
From continuing operations (cents)		
Headline loss per share	(381)	(840)
Diluted headline loss per share	(381)	(840)
Ordinary shares (in thousands)		
Total number of shares in issue	176 545	176 545
Weighted average number of shares in issue	168 610	157 384
Weighted average diluted number of shares in issue**	169 903	158 612

* Refer to note 5 – Restatement of interim condensed consolidated financial statements for the impact on profit or loss.

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

8. FINANCIAL ASSET IMPAIRMENT

Impairment losses on financial assets recognised in profit or loss from continuing operations were as follows:

<i>Figures in Rand thousand</i>	Unaudited for the six months to 31 January 2020	Unaudited restated for the six months to 31 January 2019
Impairment loss on trade and other receivables	122 375	385 747
Impairment loss on other financial assets	49 695	73 722
Impairment loss on contract assets	26 613	38 222
	198 683	497 691

9. DISCONTINUED OPERATIONS

Identification and classification of discontinued operations

There were a number of businesses that were approved for sale at 31 January 2020, and for which the sale is expected to be completed within 12 months from the reporting date, as well as businesses that were already sold during the current and previous reporting periods that have met the requirements to be presented as discontinued operations and have accordingly been presented as such.

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

The Group's intention to dispose of these non-core assets triggered an initial impairment assessment on the underlying assets at 31 January 2020, and the resulting impairment was allocated to the identified disposal groups (refer to note 13: Assets held for sale).

9. DISCONTINUED OPERATIONS continued

Identification and classification of discontinued operations continued

<i>Figures in Rand thousand</i>	Unaudited for the six months to 31 January 2020	Unaudited restated** for the six months to 31 January 2019
Revenue	1 809 405	2 625 906
Expenses	(1 837 250)	(2 493 987)
Other income	9 331	5 655
(Loss)/profit before tax	(18 514)	137 574
Tax expense	(9 065)	(111 866)
Remeasurement to fair value less costs to sell	(126 620)	–
Loss on disposal	(121 684)	–
Total (loss)/profit from discontinued operations	(275 883)	25 708
Attributable to:		
Equity-holders of the parent	(269 907)	19 562
Non-controlling interest	(5 976)	6 146
Earnings per share (cents)		
(Loss)/earnings per share from discontinued operations	(160)	12
Diluted (loss)/earnings per share from discontinued operations	(160)	12
Net cash flows in relation to discontinued operations:		
Cash inflow from operating activities	16 305	27 893
Cash outflow from investing activities	(76 543)	(77 556)
Cash inflow/(outflow) from financing activities	97 471	(39 034)

31 January 2020				
<i>Figures in Rand thousand</i>	iOCO	NEXTEC	IP	Total
Revenue	342 059	933 251	534 095	1 809 405
Expenses	(349 834)	(1 037 671)	(449 745)	(1 837 250)
Other income	3 143	3 688	2 500	9 331
Profit before tax	(4 632)	(100 732)	86 850	(18 514)
Tax expense	(1 048)	18 836	(26 853)	(9 065)
Remeasurement to fair value less costs to sell	(41 430)	(85 190)	–	(126 620)
Loss on disposal	(44 473)	(44 083)	(33 128)	(121 684)
Total (loss)/profit from discontinued operations	(91 583)	(211 169)	26 869	(275 883)

* Refer to note 5 – Restatement of interim condensed consolidated financial statements for the impact on profit or loss.

** Comparative figures previously reported have been amended to reflect continuing operations prevailing for the period ended 31 January 2020.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group acquired property, plant and equipment at a value of R66 million (2019: R108 million) and intangible assets at a value of R68 million (2019: R98 million). The Group disposed of property, plant and equipment with a carrying value of R69 million (2019: R14 million) and intangible assets with a carrying value of R38 million (2019: R98 million). Included in property, plant and equipment is R367 million capitalised as right-of-use assets under IFRS 16, at 1 August 2019.

An impairment charge of Rnil against property, plant and equipment and R4,5 million against intangible assets has been recognised at the period end.

11. GOODWILL

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
Opening balance	2 173 086	4 255 281
Acquired in business combinations	–	70 877
Foreign currency translation	560	27 874
Disposals	(140 427)	(325 605)
Impairment: discontinued operations	(97 759)	(506 762)
Impairments: continuing operations	(114 219)	(1 348 579)
Closing balance before current assets held for sale	1 821 241	2 173 086
Current assets held for sale (note 13)	(466 439)	(322 232)
Closing balance	1 354 802	1 850 854

The aggregate carrying amounts of goodwill were allocated to the following reportable segments:

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
iOCO	810 539	966 000
NEXTEC	424 701	831 544
IP	586 001	375 542
	1 821 241	2 173 086
Current assets held for sale	(466 439)	(322 232)
	1 354 802	1 850 854

A challenging economic environment during the period ended 31 January 2020 had an impact on EOH's market capitalisation and certain underlying businesses. The Group has performed impairment assessments on CGUs having had an indicator of impairment, this coupled with the sale and discontinuation of certain non-core business activities, has resulted in an impact on the carrying value of goodwill. Assessments performed have highlighted impairments of R212 million (R47 million in the iOCO segment and R165 million in the NEXTEC segment).

The impairments to goodwill relate mainly to the write down of held for sale CGUs to their fair value less costs to sell. Of the total impairment in iOCO and NEXTEC R17 million and R113 million is attributed to this fair valuation respectively.

Within iOCO a further R30 million in impairments were driven by lost or delayed contracts and projects as a result of ongoing challenging market conditions.

The NEXTEC segment is currently going through a restructuring process to unlock and realise the segment's value potential.

11. GOODWILL continued

Goodwill within the NEXTEC segment was impaired by a further R52 million as a result of the declining profitability of certain businesses within the health and learning and development cluster. Larger international players have been entering the South African health sector, putting pressure on local players, resulting in margin squeeze and loss of major contracts. Working capital constraints in the learning and development space has restricted the ability of this cluster to expand into new markets as well as certain businesses struggling to retain key customers. Owing to the above, the Group is in the process of restructuring these clusters in order to unlock and realise their value potential.

Impairment testing

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units. The recoverable amount of these cash-generating units was determined based on value-in-use calculations, discounting the future cash flows expected to be generated from the continuing operations of each cash-generating unit. Impairment tests on assets held for sale were based on fair value less costs of disposal. Cash-generating units have been identified to reflect the various solution clusters in EOH based on the strategic review of the Group. Comparatives have been aligned to this structure.

Key assumptions used in discounted cash flow projection calculations

The assumptions below have been applied to calculate the recoverable amount of cash-generating units based on a level 3 fair value less costs of disposal calculation. The discount rates used in the discounted cash flow models are calculated using the principles of the capital asset pricing Model, taking into account current market conditions.

A pre-tax weighted-average cost of capital rate was used in discounting the projected cash flows depending on the nature of business and operating markets (including country specific factors). The cash flow projections were based on 2020 budgeted results and a reasonable growth rate applied for a further four years based on market conditions and historic trends. A perpetuity growth rate was applied based on conservative historical market trends and operating markets (including country specific factors).

Key assumptions used represent management's assessment of future trends in the industry and are based on past experience and both external and internal data.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

12. EQUITY-ACCOUNTED INVESTMENTS

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
Opening balance	300 535	530 861
Additions	–	190 454
Foreign currency translation	(2 169)	(83 304)
Foreign currency translation recognised in profit or loss	–	94 547
Disposals	(6 135)	(146 460)
Capital contribution	–	3 243
Impairment: continuing operations	(38 175)	(146 500)
Impairment: discontinued operations	(24 430)	(121 405)
Share of equity-accounted profit/(losses) from continuing operations	5 480	(9 814)
Share of equity-accounted losses from discontinued operations	(2 178)	(11 087)
Closing balance before current assets held for sale	232 928	300 535
Current assets held for sale (note 13)	(37 000)	(72 468)
Closing balance	195 928	228 067

Impaired equity-accounted investments form part of iOCO segment. The recoverable amount was based on fair value less cost of disposal. Virtuoso, aSAY and Cozumevi have been impaired to the fair value less cost of disposal. Acron and Bessertec have been sold.

The equity-accounted investments are as follows:

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
Computer Construction Software	195 923	190 453
aSAY Group	–	24 538
Cozumevi	–	13 071
Other: continuing	5	5
	195 928	228 067
Equity-accounted investments held for sale		
Virtuoso Consulting	26 000	64 175
Bessertec Group	–	896
Cozumevi	4 000	–
aSAY Group	7 000	–
Other: held for sale	–	7 397
	37 000	72 468

13. ASSETS HELD FOR SALE

The Group has refined its operational structure into three distinct operating units to allow for leaner and more agile core businesses with separate capital and governance structures. On 11 December 2018, the Group announced that opportunities would be explored for the sale of certain non-core assets, of which many have been sold during the reporting period. There continues to be a number of businesses approved for sale and for which the sale is expected to be completed within 12 months from the reporting date. These businesses are classified as disposal groups held for sale and the assets and liabilities of these disposal groups have been presented as held for sale.

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

<i>Figures in Rand thousand</i>	iOCO	NEXTEC	IP	31 January 2020
Assets				
Property, plant and equipment	61 909	93 026	89 062	243 997
Goodwill and intangible assets	19 262	272 886	365 595	657 743
Equity-accounted investments	37 000	–	–	37 000
Other financial assets	–	7 763	43 208	50 971
Deferred taxation	450	3 085	7 925	11 460
Lease receivable	4 137	798	2 606	7 541
Inventory	6 820	19 405	32 456	58 681
Current taxation receivable	6 830	11 629	6 879	25 338
Trade and other receivables	144 553	232 025	320 659	697 237
Cash and cash equivalents	56 398	97 363	153 835	307 596
Assets held for sale	337 359	737 980	1 022 225	2 097 564
Liabilities				
Other financial liabilities	(35 608)	(1 860)	(115 128)	(152 596)
Lease liabilities	(4 872)	(29 535)	(15 366)	(49 773)
Deferred taxation	–	(25 813)	(26 263)	(52 076)
Current taxation payable	(9)	(6 882)	(9 432)	(16 323)
Trade and other payables	(107 584)	(175 682)	(246 559)	(529 825)
Deferred income	720	(6 895)	(12 636)	(18 811)
Liabilities directly associated with the assets held for sale	(147 353)	(246 667)	(425 384)	(819 404)
Net assets directly associated with the disposal groups	190 006	491 313	596 841	1 278 160
Cumulative amounts recognised in other comprehensive income				
Foreign currency translation reserve	(791)	(13)	(291)	(1 095)
Impairment loss for write-down to fair value less costs to sell				
Continuing operations – operating expenses	38 175	32 350	–	70 525
Discontinued operations (note 9)	41 430	85 190	–	126 620
	79 605	117 540	–	197 145

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

13. ASSETS HELD FOR SALE continued

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

14. DISPOSAL OF SUBSIDIARIES AND EQUITY-ACCOUNTED INVESTMENTS

On 11 December 2018, the Group announced that opportunities would be explored for the sale of certain non-core assets. In line with this strategy the Group has disposed of its investments in a number of subsidiaries as well as joint ventures during the reporting period.

<i>Entity disposed</i>	Treatment before disposal	Percentage holding	Date of disposal	Consideration received or receivable	Gain/(loss) on disposal
Afon	Subsidiary	100%	01 May 19	–	(35 244)
Clearline Group	Subsidiary	100%	01 Aug 19	8 000	(58 540)
Enabledem Group	Subsidiary	100%	01 Aug 19	17 364	(28 273)
Moropa Site Solutions (Pty) Ltd	Subsidiary	100%	01 Aug 19	–	(5 109)
Telebo Construction (Pty) Ltd	Subsidiary	100%	01 Aug 19	3 000	(10 927)
WRP Consulting Engineers (Pty) Ltd	Subsidiary	100%	01 Aug 19	16 950	(6 560)
Bessertec	Joint venture	50%	01 Aug 19	–	612
Healthshare Group	Subsidiary	100%	01 Sep 19	4 000	(10 236)
D.Code Mobility (Pty) Ltd	Subsidiary	100%	01 Sep 19	3 098	(1 386)
EOH Turkey Software Services*	Subsidiary	100%	01 Oct 19	–	255
Rinedata UK	Subsidiary	100%	01 Nov 19	9 498	(4 379)
VILT Group	Subsidiary	100%	01 Nov 19	64 869	(36 614)
Cool Ideas (Pty) Ltd	Subsidiary	100%	30 Nov 19	–	732
Data World Group	Subsidiary	100%	30 Nov 19	55 000	(33 128)
Isilumko Group	Subsidiary	100%	01 Dec 19	22 000	(26 054)
MSO Group	Subsidiary	100%	01 Dec 19	21 000	(23 587)
Acron Bilsim A.S.	Joint venture	50%	01 Dec 19	–	(4 348)
Mehleketo Group*	Subsidiary	100%	01 Dec 19	–	92 592
Transaction costs					(18 966)

* Mehleketo Group and EOH Turkey Software Services have been disposed of by way of liquidation.

Net cash flows in relation to disposal of businesses

<i>Figures in Rand thousand</i>	31 January 2020
Cash received from disposal of businesses	181 409
Less cash balances of businesses disposed	(125 736)
Net cash inflow from disposal of businesses	55 673

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

15. STATED CAPITAL

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
Stated capital		
Opening balance	4 239 621	3 443 223
Shares issued for cash	–	713 115
Shares issued as a result of the acquisition of businesses	–	48 427
Shares issued to the Group's share incentive and retention schemes	–	1 170
Treasury shares	10 288	33 686
	4 249 909	4 239 621

Unissued

323 455 039 (2019: 323 455 039) unissued ordinary shares are under the control of the directors in terms of the resolution of members passed at the last Annual General Meeting subject to the provisions of section 38 of the Companies Act of South Africa and the JSE Listings Requirements. The directors are authorised to issue up to an aggregate maximum of 5% of the issued number of shares for cash until the next Annual General Meeting.

16. OTHER FINANCIAL LIABILITIES

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
Interest-bearing liabilities	2 855 362	2 980 602
Interest-bearing bank loans secured through security SPV*	2 498 089	2 292 881
Unsecured interest-bearing bank loans	347 775	675 219
Interest-bearing bank loans secured by certain property	9 498	12 502
Non-interest-bearing liabilities	244 895	352 603
Vendors for acquisition	203 930	303 313
Other non-interest-bearing liabilities	40 965	49 290
Current assets held for sale (note 13)	(152 596)	(9 248)
	2 947 661	3 323 957
Non-current financial liabilities	2 026 727	2 255 825
Current financial liabilities	920 934	1 068 132
	2 947 661	3 323 957
Reconciliation of other financial liabilities		
Balance at the beginning of the year	3 333 205	4 103 996
Proceeds from other financial liabilities	–	967 307
Repayment of other financial liabilities	(99 927)	(1 745 982)
Disposal of subsidiaries	(127 799)	(64 406)
Net changes in fair value	11 292	33 199
Other non-cash items	(16 514)	39 090
Liabilities directly associated with assets held for sale (note 13)	(152 596)	(9 248)
	2 947 661	3 323 957
Financial instruments		
Measured at amortised cost	2 743 731	3 020 644
Financial liabilities carried at fair value through profit or loss	203 930	303 313
	2 947 661	3 323 957

* The loans secured through Security SPV have the following security provided trade and other receivables and cash of at least 80% of each class of asset which are required to be pledged and in terms of security arrangements through the Security SPV.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

17. FINANCIAL INSTRUMENTS

Other financial liabilities

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

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited at 31 July 2019
Fair value through profit or loss:		
Vendors for acquisition – level 3	203 930	303 313
	203 930	303 313

Vendors for acquisition

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

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

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

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

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

<i>Figures in Rand thousand</i>	Unaudited at 31 January 2020	Audited 31 July 2019
Vendors for acquisition		
Reconciliation of movement:		
Balance at the beginning of the period	303 313	633 709
Disposals	(88 171)	–
Discharged to vendors	(22 505)	(366 413)
Foreign exchange effects	33	2 818
Net changes in fair value	11 260	33 199
Balance at the end of the period	203 930	303 313

17. FINANCIAL INSTRUMENTS continued

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

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

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

Non-recurring fair value measurements

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The fair values were determined based on sales agreements that are in place for each of the disposal groups that are held for sale. The total of such fair values is R1,743 million. The discounted cash flow method ('DCF') is used to determine their values, when the sales amount from the sale agreements was discounted using the adjusted weighted average cost of capital specific to that cash-generating unit. These fair values are categorised as level 3, based on inputs used.

18. CASH GENERATED FROM OPERATIONS

Cash generated from operations includes payments relating to OEM licence settlements of R115 million accrued for at 31 July 2019, advisory costs paid of R66 million and severance costs paid of R42 million.

19. RELATED PARTIES

The Group entered into related party transactions, the substance of which is disclosed in the Group's 2019 annual financial statements. Intragroup adjustments relate to the sales of products and services between companies in the Group.

20. CONTINGENCIES AND COMMITMENTS

Commitments

Commitments relate to amounts for which the Group has contracted, but that have not yet been recognised as obligations in the interim condensed consolidated statement of financial position.

Contingencies

Guarantees

The Group has issued guarantees and performance bonds from various Group companies as well as through available third-party facilities. At this stage, the Group is not aware of any guarantees or bonds issued which may be exercised by holders. The balance at 31 January 2020 was R286 million (31 July 2019: R358 million).

Legal claims

The Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of business. Although at this stage it is not possible to predict what the outcome of the various matters will be, nor what portion of any costs will be attributable to the Company, or whether all or any portion of such costs will be covered by insurance or will be recoverable from other, management has no reason to believe that the disposition of these matters will have a materially adverse effect on the consolidated financial position of the Company.

Notes to the interim condensed consolidated financial statements continued

for the six months ended 31 January 2020

20. CONTINGENCIES AND COMMITMENTS continued

Uncertain tax exposures

The Group operates in numerous tax jurisdictions and the Group's interpretation and application of the various tax rules applied in direct and indirect tax filings may result in disputes between the Group and the relevant tax authority. The outcome of such disputes may not be favourable to the Group. At year end there were a number of tax disputes ongoing in various of the Group's operating entities, the most significant of which related to a PAYE dispute which the Group is contesting. At 31 January, the Group had provided for R220 million on the PAYE liability assessed, and is in the process of preparing an objection to be submitted to the tax authority and based on internal and external legal and technical advice obtained, the Group remains confident that it has a strong legal case to contest the remaining exposure. There is further uncertainty regarding historical taxes as a result of the impact of the fraudulent transactions identified in the forensic investigation performed by ENS during the 2019 financial year, detailed investigations into the impact of such transactions is ongoing. Provisions based on best estimates were recognised at 31 July 2019 and no changes were made during the period ended 31 January 2020.

21. EVENTS AFTER REPORTING DATE

Continued disposal of non-core assets

The Group is considering disposing of certain businesses. A business previously deemed non-core to the Group's strategy in future, was sold subsequent to 31 January 2020. Provisional liquidators were appointed for the liquidation of CSV Water Consulting Engineers (Pty) Ltd on 17 February 2020.

Various disposal processes are expected to be realised, but have not met the criteria to be recognised as assets held for sale by 31 January 2020.

Debt reduction plan

The banks have adjusted and extended the deleverage plan for the Group by making the first target date 31 July 2020 to deleverage by R500 million (previously 31 January 2020). The Group had deleveraged by R306 million at 31 January 2020 and by R362 million at the date of releasing these results of 7 April 2020. The Group has a further R68 million in the sales proceeds account to apply against the first deleverage target of R500 million. During the December 2019 pinch period the lenders gave the Group access to funds originally destined for deleveraging for a total amount of R236 million.

In light of the above extension as well as the current COVID-19 uncertainty, a slightly updated deleveraging plan has subsequently been agreed by the Group and its various lenders, increasing the amount of deleveraging marginally from R1 500 million to R1 600 million over a period extended by three months. These changes are not included in the allocation of liabilities between current and non-current, but should, in net be helpful to the Group achieving its deleveraging targets, should disposals envisaged proceed. In total, R894 million has been classified as current liabilities in the interim condensed consolidated financial statements.

COVID-19

Subsequent to the reporting date there has been a global outbreak of COVID-19. On 15 March 2020, the President of the Republic of South Africa announced a national state of disaster and on 23 March 2020 a 21-day National Lockdown was announced to run from midnight on 26 March 2020 to midnight on 16 April 2020. These actions will have a financial impact on the Group going forward and are expected to be felt almost immediately. The core ICT business is classified as an essential service and will continue operating during the lockdown period.

The Group has a crisis management team in place consisting of all the representatives from the executive committee, as well as key operational and support functions to monitor the situation on a daily basis and ensure adequate risk management and mitigation actions are taken as well as communications and engagement with clients, staff and other stakeholders.

Corporate information

EOH Holdings Limited

EOH Holdings Limited
Incorporated in the Republic of South Africa
Registration number: 1998/014669/06
JSE share code: EOH
ISIN code: ZAE000071072
("EOH" or "the Company" or "the Group")

Directorate

Non-executive

Andrew Mthembu (appointed as Chairman effective 6 February 2020)
Anushka Bogdanov (appointed Lead Independent Non-executive Director on 7 February 2020)
Ismail Mamoojee
Jesmane Boggenpoel
Mike Bosman
Moretlo Molefi
Sipho Ngidi (appointed effective 20 February 2020)
Xolani Mkhwanazi (Chairman deceased 4 January 2020)

Executive

Stephen van Coller
Megan Pydigadu
Fatima Newman

Group Company Secretary

EOH Secretarial Services (Pty) Ltd, represented by Neill O'Brien

Registered address

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

Auditors

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4 Lisbon Lane, Waterfall City, Jukskei View, 2090

Sponsor

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

Transfer secretaries

Computershare Investor Services (Pty) Ltd
Registration number: 2004/003647/07
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
Private Bag X9000, Saxonwold, 2132



Website:
www.eoh.co.za