3. Restatement of prior year financial statements

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

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

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

Revenue

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

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

Internally generated intangible assets

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

Inventory licences

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

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

Provision for impairment on financial assets

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

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

3. Restatement of financial statements continued

Unrecorded liabilities/recoverability of assets

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

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

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

A number of impairment indicators for the Group's investment in TTCS, trade receivables and loan balances existed in prior years – these included:

- Default by TTCS, prior to 31 July 2018, on the repayment of debtor and loan balances due to the Group;
- Significant deterioration in key ratios of TTCS in the prior periods; and
- Ongoing and persistent foreign currency shortages in Zimbabwe.

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

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

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

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

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

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

		Correction of prior period errors						
Figures in Rand thousand	31 July 2018	Revenue	Internally generated intangible assets	Inventory	Provision for impairment of financial assets	Unrecorded liabilities/ recoverability of assets	Adoption of IFRS 9 (refer note 2.1)	Restated 31 July 2018
Intangible assets	1 265 220		(384 828)					880 392
Equity-accounted investments	822 204					(291 343)		530 861
Other financial assets	907 359				(167 106)		(35 521)	704 732
Inventory	431 609			(54 108)				377 501
Trade and other receivables	5 583 044	(219 660)			(208 379)	(257 340)	(164 360)	4 733 305
Finance lease receivables	203 818						(9 909)	193 909
Current taxation payable	(149 830)					(20 400)		(170 230)
Trade and other payables	(2 760 283)					(378 937)		(3 139 220)
Net assets	8 128 713	(219 660)	(384 828)	(54 108)	(375 485)	(948 020)	(209 790)	5 936 822
Retained earnings	(3 184 359)	219 660	384 828	54 108	375 485	948 020	209 790	(992 468)
Total equity	(8 128 713)	219 660	384 828	54 108	375 485	948 020	209 790	(5 936 822)

3. Restatement of financial statements continued

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

		Correction of prior period errors						
Figures in Rand thousand	31 July 2018	Revenue	Internally generated intangible assets	Inventory	Provision for impairment on financial assets	Unrecorded liabilities/ recoverability of assets	Reclassified as discontinued operations (note 16)	**Restated 31 July 2018**
Continuing operations								
Revenue	16 341 024	(469 678)					(3 768 029)	**12 103 317**
Cost of sales	(11 523 643)	250 018	(18 964)			(84 751)	2 695 181	**(8 682 159)**
Gross profit	4 817 381	(219 660)	(18 964)	–	–	(84 751)	(1 072 848)	**3 421 158**
Net financial asset impairment losses	(197 998)				(375 485)		39 078	**(534 405)**
Operating expenses	(3 811 494)		(365 863)	(54 108)		(758 917)	763 168	**(4 227 214)**
Operating loss before interest and equity-accounted profit	807 889	(219 660)	(384 827)	(54 108)	(375 485)	(843 668)	(270 602)	**(1 340 461)**
Investment income	52 750						(14 549)	**38 201**
Share of equity-accounted profit	48 223						(48 686)	**(463)**
Finance costs	(352 145)						4 961	**(347 184)**
Profit/(loss) before taxation	556 717	(219 660)	(384 827)	(54 108)	(375 485)	(843 668)	(328 876)	**(1 649 907)**
Taxation	(268 460)					(3 609)	66 154	**(205 915)**
Profit/(loss) for the year from continuing operations	288 257	(219 660)	(384 827)	(54 108)	(375 485)	(847 277)	(262 722)	**(1 855 822)**
Loss for the year from discontinued operations	(392 450)						262 722	**(129 729)**
Loss for the year	(104 193)	(219 660)	(384 827)	(54 108)	(375 485)	(847 277)	–	**(1 985 551)**
Other comprehensive income	(48 317)							**(48 317)**
Total comprehensive income for the year	(152 510)	(219 660)	(384 827)	(54 108)	(375 485)	(847 277)	–	**(2 033 868)**
Loss attributable to:								
Owners of EOH Holdings Limited	(100 984)							**(1 976 195)**
Non-controlling interest	(3 209)							**(9 356)**
Total	(104 193)							**(1 985 551)**
Total comprehensive income attributable to:								
Owners of EOH Holdings Limited	(146 267)							**(2 021 478)**
Non-controlling interest	(6 243)							**(12 390)**
Total	(152 510)							**(2 033 868)**
From continuing and discontinued operations (cents)								
Loss per share	(70)							**(1 367)**
Diluted loss per share	(68)							**(1 367)**
Headline earnings/(loss) per share	283							**(546)**
Diluted earnings/(loss) per share	276							**(546)**
From continuing operations (cents)								
Earnings/(loss) per share	202							**(1 277)**
Diluted earnings/(loss) per share	196							**(1 277)**
Headline earnings/(loss) per share	278							**(728)**
Diluted earnings/(loss) per share	271							**(728)**

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