43. Schedule of investments in subsidiaries

All the subsidiaries below are incorporated in South Africa unless otherwise indicated.

	Effective interest		Carrying amount of investment in shares		Gross loans owing by/(to) subsidiaries	
Figures in Rand thousand	2019 %	2018 %	2019	2018	2019	2018
Direct subsidiaries in Holdings						
CA Southern Africa Proprietary Limited	100	100	14 924	14 924	(40 879)	(40 879)
Enterprise Softworks Proprietary Limited	100	100	15 997	15 997	9 943	9 943
EOH Abantu Proprietary Limited	100	100	499 835	904 396	351 829	351 829
EOH Consulting Proprietary Limited	100	100	46 176	52 759	1 194	1 194
EOH International Proprietary Limited	100	100	250 104	446 401	–	64 061
EOH Mthombo Proprietary Limited	100	100	803 175	1 513 622	2 350 201	1 645 525
Intellient Proprietary Limited	100	100	9 913	9 913	(395)	(395)
Mthombo IT Services Proprietary Limited	100	100	28 917	43 157	(735)	(735)
NEXTEC Industrial Technologies	100	100	–	691 321	115 815	115 815
V55 Investments Proprietary Limited	100	100	–	–	(23 919)	(23 919)
			1 669 041	3 692 490	2 763 054	2 122 439
Trusts						
The EOH Share Trust	100	100				
The Mthombo Trust	100	100				

The full list of subsidiaries can be obtained from the Group's registered offices.

44. Financial assets and financial liabilities

Financial risk management and fair value disclosures

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. Risk management is carried out centrally and management identifies, evaluates and analyses financial risks where necessary in close co-operation with the Group's operating business units. The governance and risk committee oversees how management monitors compliance with the Group risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's normal operations expose it to the following financial risks from its use of financial instruments:

- Capital risk
- Liquidity risk
- Interest risk
- Credit risk
- Currency risk.

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy at 31 July 2019:

	Carrying amount					Fair value			
Figures in Rand thousand	Mandatorily at FVTPL	Amortised cost	Total	Held for sale	Balance	Level 1	Level 2	Level 3	Total
Financial assets									
Cash and cash equivalents	–	1 358 956	1 358 956	(310 373)	1 048 583	–	–	–	–
Trade and other receivables	–	3 019 330	3 019 330	(714 562)	2 304 768	–	–	–	–
Other financial assets	28 332	67 285	95 617	(7 289)	88 328	–	–	28 332	28 332
Financial liabilities									
Trade and other payables	–	1 317 324	1 317 324	(468 941)	848 383	–	–	–	–
Other financial liabilities	303 313	3 029 892	3 333 205	(9 248)	3 323 957	–	–	303 313	303 313

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy at 31 July 2018:

	Carrying amount					Fair value			
Figures in Rand thousand	Mandatorily at FVTPL	Amortised cost	Total	Held for sale	Balance	Level 1	Level 2	Level 3	Total
Financial assets									
Cash and cash equivalents	–	1 418 319	1 418 319	–	1 418 319	–	–	–	–
Trade and other receivables	–	3 629 433	3 629 433	–	3 629 433	–	–	–	–
Other financial assets	138 788	565 944	704 732	–	704 732	89 010	–	49 768	138 788
Financial liabilities									
Trade and other payables	–	1 343 273	1 343 273	–	1 343 273	–	–	–	–
Other financial liabilities	633 709	3 470 287	4 103 996	–	4 103 996	–	–	663 709	663 709

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

All cash and cash equivalents, short-term receivables and short-term 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.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss, in terms of the hierarchy, are classified as level 3 where the valuation technique used is based on unobservable inputs for the asset.

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

The fair value of the investment is sensitive to changes in expected dividends from the entities. Discounting is not material and therefore the fair value is not sensitive to changes in discount rates.

Other financial assets reconciliation of movement of level 3 items

Figures in Rand thousand	2019	2018
Balance at the beginning of the year	49 768	39 462
Transfer from loans and receivables	(13 540)	5 774
Additions	870	–
Net changes in fair value	(8 766)	4 532
Balance at the end of the year	28 332	49 768

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Financial liabilities at fair value through profit or loss

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.

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. The fair value of the contingent consideration is dependent on the expected profit and is therefore sensitive to changes in such expected profit. Discounting is not material and therefore the fair value is not sensitive to changes in discount rates.

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.

Vendors for acquisition reconciliation of movement

Figures in Rand thousand	2019	2018
Balance at the beginning of the year	633 709	1 167 453
Raised through business combinations	–	153 695
Acquisitions of remaining non-controlling interests	–	67 839
Discharged to vendors	(366 413)	(726 051)
Foreign exchange effects	2 818	(20 071)
Net changes in fair value	33 199	(9 156)
Balance at the end of the year	303 313	633 709

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

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Gains and losses from continuing operations

Figures in Rand thousand	2019
Fair value gains/(losses) on financial assets at fair value through profit or loss	(12 000)
Fair value gains/losses) on financial liabilities at fair value through profit or loss	(33 470)
Interest income on financial assets at amortised cost	24 022
Interest expense on financial liabilities at amortised cost	(312 718)
	(334 166)

Capital risk management

The Group's objective is to safeguard its ability to continue as a going concern and to maintain an appropriate capital structure while growing the business. This is consistent with previous years.

In order to maintain or adjust the capital structure of the Group, the Board of directors may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The debt to equity ratios were as follows:

	2019	2018
Total debt (R'000)	3 381 318	4 195 744
Total equity (R'000)	1 916 075	5 919 034
Debt to equity ratio (%)	176%	71%

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by reviewing future commitments and credit facilities to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Figures in Rand thousand	Less than 1 year	Between 2 and 5 years
At 31 July 2019		
Other financial liabilities	1 068 132	2 255 825
Trade and other payables	1 317 324	–
At 31 July 2018		
Other financial liabilities	895 581	3 208 415
Trade and other payables	1 343 273	–

The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed above. Subsequent to the reporting date, payment terms were renegotiated with the lenders which has resulted in R750 million being due to be settled within less than one year.

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Interest risk

The cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate owing to changes in the market interest rate. The fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in the market interest rates. The Group assumes exposure to the effects of the fluctuations in the prevailing levels if the market interest rates on both the fair value and cash flow risks fluctuate.

Interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. The Group policy is to maintain most of its borrowings in variable rate instruments. The variable rates are influenced by movements in the prime borrowing rates. During the reporting period, the Group's borrowings at variable rates were denominated in Rand.

The Group analyses its interest rate exposure on an ongoing basis. The Group does not hedge against fluctuations in interest rates.

At 31 July 2019, if the interest rate on Rand-denominated borrowings had been 1% higher with all other variables held constant, pre-tax profit for the year would have been R30 million (2018: R35 million) lower, mainly as a result of higher interest expense on floating rate borrowings.

Credit risk and expected credit losses

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's other financial assets, finance lease receivables, trade and other receivables and cash and cash equivalents.

Trade receivables, contract assets and finance lease receivables comprise a widespread customer base, spread across diverse industries and geographical areas. The Group has a general policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Management evaluates credit risk relating to customers on an ongoing basis, taking into account its financial position, past experience and other relevant factors. If customers are independently rated, these ratings are also considered.

The carrying amounts of financial assets represent the maximum credit exposure. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. Financial assets exposed to credit risk at year-end were as follows:

Figures in Rand thousand	2019	2018
Other financial assets	95 617	704 732
Finance lease receivables	179 413	193 909
Trade and other receivables	3 019 330	3 629 434
Cash and cash equivalents	1 358 956	1 418 319
Contract assets	644 937	799 768

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

Figures in Rand thousand	2019
Impairment loss on trade and other receivables	88 206
Impairment loss on other financial assets	433 455
Impairment losses on cash and cash equivalents	50 309
Impairment loss on contract assets	35 323
Impairment loss on finance lease receivables	(909)
	606 384

At the reporting date, the Group did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Credit risk and expected credit losses continued

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry in which customers operate.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. The Group's exposure and the credit scores of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty credit limits that are reviewed and approved by the risk management committee/credit control department annually.

The average credit period on sales of goods and services range from 30 days to 120 days. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Customers are grouped according to their credit characteristics. The customers grouped in a particular segment, which is industry segments, share similar credit risk characteristics. Trade receivables are assessed for impairment on a collective basis. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral.

During the first half of the year, a target was set to significantly reduce the debtors' balance. By 31 July 2019, the trades receivables balance decreased from R4,1 billion to R3,4 billion (before adjusting for assets held for sale) with over R400 million cash realised from debtors' balances greater than 90 days at 31 January 2019.

Comparative information under IAS 39

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 July 2018 is as follows:

Age of receivables that are past due but not impaired:

Trade and other receivables that are neither past due nor impaired are considered to be of good credit quality.

Past due but not impaired

Figures in Rand thousand	2018
30 days	335 306
60 days	21 896
90 days	98 711
120 days and over	1 053 514
Total	1 509 427

Expected credit loss assessment for trade receivables and contract assets

The allowance for impairment of trade receivables and contract assets is created to the extent and as and when required, based upon the expected collectability of accounts receivables. The Group uses a provision matrix to measure the ECLs of trade receivables and contract assets.

Loss rates are calculated using a 'roll rate'/'flow rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates/flow rates are calculated separately for exposures in different industry segments based on the common credit risk characteristics.

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

A default event is considered to have occurred when aged 90 days. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the entity, and a failure to make contractual payments for a period of greater than 90 days past due.

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Credit risk and expected credit losses continued

Expected credit loss assessment for trade receivables and contract assets continued

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets as at 31 July 2019:

Figures in Rand thousand	Gross carrying amount
Automotive	45 920
Central government	284 510
Construction	396 524
Education	109 398
Energy	101 066
Environmental	13 156
Financial services	320 873
Food and beverage	253 763
Health	59 037
Hospitality	65 202
Human capital	20 675
Information technology	193 052
Legal services	13 702
Legislatures	4 326
Local government	1 062 713
Manufacturing and logistics	278 700
Marketing and advertising	1 485
Membership organisations	2 650
Mining	178 552
Others	224 977
Prof business and advisory SVCS	5 962
Property and facilities MGMT	25 932
Public benefit organisations	200
Reseller	14 693
Retail	81 537
Security and defence	4 089
SOE – construction	854
SOE – manufacturing and logistics	39 536
SOE – mining	335
SOE – transport	42 242
SOE – utilities	31 488
Telecommunications	310 599
	4 187 744

Loss rates are based on actual credit loss experience over the past 23 months. These rates are multiplied by scalar factors to reflect differences between current and historical economic conditions and the Group's view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast inflation, interest rates, industrial production and gasoline prices. The historical loss experience was also adjusted for the projected cash flows based on the risk grading of the receivables between receiving, recoverable, generic, legal, business rescue and write-off. Each of these risk gradings has a weighted average loss rate percentage of 3,2%, 7,7%, 17,9%, 45,7%, 64,1% and 100% respectively.

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Credit risk and expected credit losses continued

Movements in the allowance for impairment in respect of trade receivables and contract assets:

Figures in Rand thousand	2019
Balance at 1 August 2018 per IFRS 9	611 514
Impairment losses recognised on receivables and contract assets	175 145
Movement to discontinued	(208 379)
Amounts written off during the year as uncollectible	(51616)
Foreign exchange translation gains and losses	9 391
Balance at 31 July 2019	536 055

Trade receivables with a contractual amount of R52 million were written off during 2019.

The Group maintains its cash and cash equivalents with banks and financial institutions having good reputation, good past track record and high quality credit rating and also reviews their credit-worthiness on an ongoing basis.

Impairment on cash and cash equivalents has been measured on the 12-month expected loss basis and reflects the short-term maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk, based on the external credit ratings of the counterparties. There was, however, one cash balance held within a Zimbabwe bank account, related to TTCS, which has been fully provided for at R50 million due to the risk of changes in currency within Zimbabwe of the bank balance and the difficulty in getting the funds.

Finance lease receivables

The policy choice is to measure the loss allowance at an amount equal to lifetime expected credit losses.

Other financial assets

Other financial assets are very specific assets and were assessed individually for impairment, using the general approach under IFRS 9. Specific assessments were over GCT, TTCS and ED loans, which make up the other financial assets.

Currency risk

The Group operates internationally but has limited exposure to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, the Euro and the British Pound, as well as other currencies

Foreign exchange risk arises from future commercial transactions, recognised assets or liabilities that are denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Group has limited investments in foreign operations, where the assets are exposed to foreign currency translation risk. Currency exposure arising from net assets of the group's foreign operations will have no effect on the post-tax profit as the effect of the translation is recognised directly in the foreign currency translation reserve. As at 31 July 2019, if the foreign entities local currencies had weakened or strengthened by 5% against the Rand, with all other variables held constant, the impact on equity for the Group would have amounted to R16 million (2018: R26 million).

44. Financial assets and financial liabilities continued

Financial risk management and fair value disclosures continued

Financial assets and financial liabilities are analysed by currency as follows:

Foreign currency financial instruments	2019				
		Financial assets		Financial liabilities	
Figures in Rand thousand	Other financial assets	Trade and other receivables	Cash and cash equivalents	Other financial liabilities	Trade and other payables
British Pound	–	56 108	33 407	(11)	(41 973)
US Dollar	870	136 296	17 680	–	(89 124)
Arab Emirates Dirham	6 091	73 614	10 264	(2 486)	(107 976)
Euro	–	177 237	24 107	(51 779)	(101 288)
Egyptian Pound	–	59 148	5 192	–	(39 806)
Indian Rupee	–	60 210	7 933	–	(11 930)
Saudi Riyal	–	41 604	7 071	–	(38 246)
Other	–	94 731	60 523	(461)	(50 903)

Foreign currency financial instruments	2018				
		Financial assets		Financial liabilities	
Figures in Rand thousand	Other financial assets	Trade and other receivables	Cash and cash equivalents	Other financial liabilities	Trade and other payables
British Pound	–	57 926	24 024	(131)	(26 153)
US Dollar	1 333	391 624	71 534	(5 785)	(121 918)
Arab Emirates Dirham	24 874	146 232	15 232	(4 244)	(98 200)
Euro	392	187 745	21 990	(42 742)	(71 795)
Indian Rupee	–	29 127	2 033	(846)	(2 832)
Singapore Dollar	–	41 999	12 017	–	–
Other	–	76 459	70 848	(539)	(33 993)

45. Going concern

The financial performance and position for the Group reflect a loss for the year of R4,8 billion, negative retained earnings at the end of the year of R3,2 billion and cash outflows from operating activities of R112 million. Details of the performance and position are explained and well documented in the consolidated Annual Financial Statements and the various reports accompanying them within the Annual Integrated Report. A detailed action plan has been developed and is being successfully executed against to ensure the Group's ability to continue as a going concern in the short term.

Key salient features of this management action plan include:

1. Agreement with its funders on an accelerated debt reduction plan as detailed in note 46 – Events after the reporting date;
2. Conversion of assets into cash through the sale of non-core businesses;
3. Consideration of partnerships where significant value can be unlocked; and
4. Removal of current and/or potential cash drain from underperforming businesses or unnecessary costs within the Group.

Through their assessment of whether the Group is a going concern, the directors considered and confirmed that:

1. The Group is solvent;
2. There is an approved budget for the following 12 months;
3. There are cash flow forecasts for the following 12 months;
4. It has sufficient access to facilities or executable liquidity events, primarily the sale of non-core assets, to fund operations for the following 12 months;
5. The Group's assets are appropriately insured;
6. There is currently no outstanding litigation, that has not been adequately included, that could put pressure on the Group's ability to meet its obligations; and
7. Good progress has made against the management action plan as noted above.

Based on their assessment, the directors are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future and as such consider it appropriate that the Group's consolidated results be prepared on the going concern basis.