Report on the reviewed condensed consolidated interim financial information of Metquip (Pty) Ltd for the period ended 31 December 2019

(Incorporated by reference into the Circular to ELB Group shareholders dated 23 April 2020)

Report on the consolidated historical financial information of Metquip (Pty) Ltd

This report on the condensed consolidated financial information of the Metquip (Pty) Ltd ("Metquip") should be read in conjunction with the Circular to ELB shareholders dated 23 April 2020 in relation to, *inter alia* , the disposal by ELB Group Limited ("ELB") of the ELB Australasia segment through the disposal of Metquip and, in particular, the definitions and interpretations contained therein

The consolidated condensed interim financial information of Metquip set out below has been extracted from the consolidated financial statements of Metquip for the period ended 31 December 2019

The Historical Financial Information is the responsibility of the directors of ELB.

The Historical Financial Information was prepared in accordance with IFRS and interpretations adopted by the International Accounting Standards Board ("IASB"), and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council.

In terms of paragraph 8.48 (a) ii of the JSE Limited ("JSE") Listing Requirements, the Independent Reporting Accountant is to provide a review conclusion on the consolidated condensed interim financial information financial year immediately preceding the issue of the Circular to ELB shareholders dated 23 April 2020.

Accordingly, the consolidated condensed interim financial information was reviewed for the financial period ended 30 December 2019 by BDO South Africa.

The Independent Reporting Accountant's unqualified review report for the period ended 31 December 2019. The review report is included in Annexure 2C to the Circular.

Commentary

The consolidated financial results of Metquip comprises of the financial results of Metquip and its wholly owned subsidiaries ("the Metquip Group"/"ELB Australia"), being:

- Elbquip Holdings (Pty) Ltd
- ELB Property Management (Pty) Ltd;
- ELB Equipment (Pty) Ltd; and
- ELB Equipment Ltd

Overview of the ELB Australia's operating results for the period ended 31 December 2019

The Australasian group closed out the first half of the year reasonably close to budgeted revenues, but with a significant profitability shortfall to budget driven primarily by very subdued margins relative to budget.

Margin drivers have included:

- Product mix skewed towards generally lower margin products
- Challenging trading conditions leading to lower margins to remain competitive
- Reduction of aged inventory at below normal market prices
- One large significant deal with cost overruns
- Acute price pressure due to a rapidly worsening foreign exchange situation

The profit shortfalls are due almost entirely to compressed margins. Revenues are relatively close to budget and likewise fixed costs are broadly in-budget and under control.

Interest expense has been elevated due to carrying more inventory than planned. Long lead times coupled with recently contracting demand has caused inventory levels to overshoot budget. Ordering activities were substantially curtailed from early in FY2020, but the long tail of the supply chain means we should see inventories crest in January and then steadily decline into the latter part of the financial year.

Notwithstanding the highly variable forex market and resultant unrealized forex gains and losses, management anticipates full year revenues to miss budget by as much as 10%. However, product mix changes notwithstanding it is anticipated that margins will return to more normal levels on a product group basis.

Interim consolidated condensed statement of financial position as 31 December 2019

As at: Figures in R'000	Reviewed 31 Dec 2019
ASSETS	
Non-current assets	
Property, plant and equipment	51 301
Right of use assets	32 283
Deferred tax assets	13 064
Total non-current assets	**96 648**
Current assets	
Inventories	363 749
Trade and other receivables, other financial assets and other current assets	46 595
Cash and cash equivalents	13 602
Total current assets	**423 946**
Total Assets	**520 594**
EQUITY AND LIABILITIES	
EQUITY	
Issued capital	29 154
Reserves	43 929
Retained earnings	69 145
Total Equity	**142 228**
LIABILITIES	
Non-current liabilities	
Loans from related party	98 261
Lease liabilities	22 960
Deferred tax liabilities	632
Total non-current liabilities	**121 853**
Current liabilities	
Loans from related party	1 303
Interest-bearing borrowings	4 926
Lease liabilities	9 527
Trade and other payables, other financial liabilities and other current liabilities	240 757
Total current liabilities	**256 513**
Total liabilities	**378 366**
Total Equity and Liabilities	**520 594**
NAV and diluted NAV per share (cents)	**5 367.1**
TNAV and diluted TNAV per share (cents)	**4 874.1**

Interim consolidated condensed statement of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2019

For the period ending Figures in R'000	Reviewed 31 Dec 2019
Revenue	279 843
Operating costs excluding impairment of disposal group and financial assets and depreciation and amortisation of non-financial assets	(274 225)
Operating profit before impairment of disposal group and financial assets and depreciation and amortisation of non-financial assets	**5 618**
Impairment of trade receivables	-
Depreciation of non-financial assets	(7 053)
Loss from operations	**(1 435)**
Finance income	54
Finance expense	(3 912)
Loss before income tax	**(5 293)**
Income tax expense	1 401
Loss for the year	**(3 892)**
Items that may be reclassified to profit or loss:	
Foreign currency translation adjustments attributable to ordinary shareholders of the Company	**(424)**
Total items that may be reclassified to profit or loss	**(424)**
Total other comprehensive income for the year	**(4 316)**
Loss attributable to:	
Ordinary shareholders of the Company	**(3 892)**
Total comprehensive income for the year attributable to:	
Ordinary shareholders of the Company	**(4 316)**

Interim consolidated condensed statement of Changes in Equity for the period ended 31 December 2019

Figures in R'000 Reveiwed	Issued Capital	Reserves	Retained earnings	Total Equity
Opening balance at 30 June 2018	**29 154**	**47 442**	**50 323**	**126 919**
Loss for the year			22 714	22 714
Other comprehensive income/(loss)		(3 089)		(3 089)
Total comprehensive income/(loss)		(3 089)	22 714	19 625
Balance at 30 June 2019	**29 154**	**44 353**	**73 037**	**146 544**
Loss for the year			(3 892)	(3 892)
Other comprehensive income/(loss)		(424)		(424)
Total comprehensive income/(loss)		**(424)**	**(4 316)**	**(4 316)**
Balance at 30 June 2019	**29 154**	**43 929**	**69 145**	**142 228**

Interim consolidated condensed statement of Cash Flows for the period ended 31 December 2019

For the period ending Figures in R'000	Reviewed 31 Dec 2019
Cash flows from operating activities	
Cash utilised by operations	(1 332)
Finance income	54
Finance expense	(5 569)
Income tax paid	(4 317)
Net cash outflow from operating activities	**(11 164)**
Cash flows from investing activities	
Purchase of property, plant and equipment	(3 875)
Net cash outflow from investing activities	**(3 875)**
Cash flows from financing activities	
Interest-bearing borrowings repaid	(5 345)
Net cash (outflow)/inflow generated from financing activities	**(5 345)**
Total cash movement for the period	**(20 384)**
Cash and cash equivalents at the beginning of the period	33 986
Cash and cash equivalents at the end of the period	**13 602**

Per share measurements

	Reviewed 31 Dec 2019
Weighted average number of ordinary shares	
Number of shares at the beginning and end of the period	2 650
Basic and diluted number of shares in issue at the beginning and end of the period	**2 650**

The Group does not have any share options schemes and therefore the number of shares in issue is the same as the dilutive weighted average number of shares.

NAV and diluted NAV per share (cents)	5 367.1
TNAV and diluted TNAV per share (cents)	4 874.1

Notes

1. **Basis of preparation and accounting polices**

The interim financial statements are prepared in accordance with and containing the information required by IAS 34 Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council. The accounting policies applied in the preparation of these condensed consolidated interim financial statements, are in terms of International Financial Reporting Standards (IFRS) and, except as described in note 2, are consistent with those applied in the annual financial statements for the year ended 30 June 2019.

The condensed consolidated interim financial statements are prepared on the historical cost basis except for the following item which is measured using an alternative basis at each reporting date:
– Derivative financial instruments measured at fair value through profit and loss.

The directors take full responsibility for the preparation of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements were compiled under the supervision of Altea Spagnuolo, Group Financial Director, and were approved on 14 April 2020.

The functional currency of ELB Australia is the Australian Dollar and the presentation currency of the ELB Group is the South African Rand, rounded to the nearest thousand, except for when otherwise indicated.

2. **Changes in accounting policies due to the adoption of new and revised accounting standards and interpretations**

The adoption of certain new standards and interpretations, which became effective in the current period, has resulted in changes to accounting policies and disclosures, of which the adoption of IFRS 16: Leases ("IFRS 16") has had a material impact on the financial position of the Group.

The Group adopted IFRS 16 with effect from 1 July 2019, using the modified retrospective method. As prescribed by IFRS 16, lease liabilities are measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The Group has elected to recognise the right of use assets equal to the lease liability at 1 July 2019, adjusted for any straight lining adjustments at 1 July 2019. As a result, the cumulative effect of initial application of the standard had no impact on equity at the beginning of the current financial reporting period. Comparative information has not been restated, and continues to be reported in terms of the previous applicable standards, IFRIC 4 and IAS17. IFRS 16 has one model for lessees which results in leases previously classified as operating leases and recorded off-balance sheet being capitalised on the balance sheet, requiring a lessee to recognise a right-of-use asset and a concomitant lease liability.

Practical expedients and key judgements applied

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

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Using hindsight in determining the lease terms whether the contract contains options to extend or terminate the lease.
- Low value assets and short-term leases - the Group has elected to apply the practical expedient to account for all short-term leases (leases with a contract term of less than twelve months) as operating expenses. All leases where the underlying asset being used is of low value (leases with a contract value of less than R50 000) are assessed on a lease-by-lease basis and accounted for as expenses as incurred.
- Lease term:

o where a lease contract is currently ongoing on a monthly basis, that the lease term be limited to the one-month enforceable period and therefore that the lease be excluded from the lease population for the calculation of the right-of-use asset and liability on adoption of the standard and;

o where a contract contains a renewal clause, management has assumed that the lease will be renewed for a period calculated based on past historical renewal behaviour, taking into consideration the strategic nature of the asset.

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

Notes (continued)

2. **Changes in accounting policies due to the adoption of new and revised accounting standards and interpretations (continued)**

Impact on the financial statements:

Measurement of lease liabilities:

The table below shows the reconciliation between operating lease commitments (disclosed under IAS 17) at 30 June 2019 and lease liabilities recognised on 1 July 2019.

	R'000
Operating lease commitments disclosed as at 30 June 2019	23 483
*Plus errors that were identified in the operating lease commitments disclosed as at 30 June 2019	16 245
Discounted using the incremental borrowing rate as at the date of initial application	(4 588)
Less: short-term leases not recognised as a liability	(563)
Less: low-value leases not recognised as a liability	-
Lease liability recognised as at 1 July 2019	**34 577**
Of which related to:	
Non-current lease liabilities	9 726
Current lease liabilities	24 851
	34 577

*The errors that were identified in the operating lease commitments disclosed as at 30 June 2019 related lease expenses beyond five years that were not disclosed.

Measurement of right-of-use assets:

The Group has elected to recognise the right of use assets equal to the lease liability at 1 July 2019, adjusted for any straight lining adjustments at 1 July 2019.

	R'000
Lease liabilities recognised as at 1 July 2019	34 577
Less straight lining accruals	-
Right of use assets recognised at 1 July 2019	**34 577**
Of which related to:	
Leased properties	24 497
Leased vehicles	10 080
	34 577

2. **Changes in accounting policies due to the adoption of new and revised accounting standards and interpretations (continued)**

Summary of the adjustments recognised in the statement of financial position on 1 July 2019:

The change in the accounting policy affected the following items in the statement of financial position on 1 July 2019:

	R'000
Increase in right-of-use assets	34 577
Increase in lease liabilities	(34 577)
Decrease in straight-lining accrual	-
Movement in deferred tax assets	-
Net impact on retained earnings at 1 July 2019	-

Excluding the abovementioned adjustments, none of the other new, revised or amended accounting standards or interpretations that were adopted at the beginning of the period had a material impact on the financial statements.

Notes (continued)

3. **Impact of new, amended or revised standards issued but not yet effective**
New accounting standards, amendments to accounting standards and interpretation issued which are relevant to the Group, but not yet effective on 30 June 2019, have not been adopted. The Group continuously evaluates the impact of these standards and amendments.

4. **Related party transactions**
Group entities entered into various sale and purchase transactions with related parties in the Group in the ordinary course of business, the nature of which was consistent with those previously reported. All transactions and balances with these related parties have been eliminated in the consolidated results.

5. **Fair value classification and measurement**
The ELB Group measures foreign currency forward exchange contracts at fair value using inputs as described in Level 2 of the fair value hierarchy. The fair values for foreign currency forward exchange contracts are based on quotes from brokers. Similar contracts are traded in an active market and the quotes reflect the actual transactions on similar instruments. All other financial assets or liabilities carrying values approximate their fair values based on the nature or maturity period of the financial instrument. There were no transfers between Levels 1, 2 or 3 of the fair value hierarchy.

6. **Capital expenditure incurred and future capital expenditure commitments**
Capital expenditure of R3.9 million (31 December 2018: R3 million, 30 June 2019: R10.6 million) was incurred during the period on property, plant and equipment. There were no material capital expenditure commitments at each reporting date.

7. **Post balance sheet events**

Following the outbreak of the Covid-19 pandemic and the measures implemented by the State post 31 December 2019, COVID-19 is expected to have an impact on the Group. Operational and supply chain disruptions are expected. Management are monitoring the situation closely and appropriate contingency plans are being developed to address known potential risks.

Other than the above matter, the directors are not aware of any other material events which occurred after the reporting date and up to the date of this report.

8. **Going concern**

While Covid-19 is expected to result in a reduction in operating profits, the impact thereof is not expected to impact on the Group’s ability to continue to operate into the foreseeable future. Cost cutting measures (such as the suspension of all overtime, 20% reduction in senior management salaries, reduction in working hours for staff and other miscellaneous cost reductions (including the reduction of rental expenses) have been implemented by the Group.

Accordingly, based on the above information, the interim historical financial statements have been prepared on a going concern basis. Other than the above matter, the directors are not aware of any reportable material event which occurred after the reporting date and up to the date of the report on the historical financial statements.