THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The definitions and interpretations commencing on page 5 apply to this cover page.

ACTION REQUIRED BY SHAREHOLDERS:

1. This entire Circular is important and should be read with particular attention to the section entitled Action required by Shareholders, commencing on page 3.
2. If you are in any doubt as to what action to take in relation to this Circular, please consult your CSDP, Broker, banker, attorney, accountant or other professional adviser immediately.
3. If you have disposed of all your Shares in Blue Label, please forward this Circular and the attached Form of Proxy (*blue*) to the purchaser of such Shares or to the CSDP, Broker, banker or other agent through whom the disposal was effected.

BLUE LABEL
TELECOMS

BLUE LABEL TELECOMS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU ISIN: ZAE000109088
("**Blue Label**" or "**the Company**")

CIRCULAR TO SHAREHOLDERS

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relating to:

- **the approval of the VAS Operations Transaction and the 3G Distribution Transaction, such disposals constituting a category 1 transaction for Blue Label in terms of the JSE Listings Requirements;**

and incorporating:

- **a Notice of General Meeting; and**
- **a Form of Proxy (*blue*) for purposes of the General Meeting (only for use by Certificated Shareholders and Dematerialised Shareholders who have selected Own-Name Registration).**

Financial Adviser and Sponsor

Investec
Investment Banking

Legal Adviser to Blue Label

WERKSMANS
ATTORNEYS

Reporting Accountant to Blue Label, the VAS Operations and 3G Distribution for the year ended 31 May 2019 and the 5 months ended 31 May 2018

pwc

Reporting Accountant to 3G Distribution for the years ended 31 December 2017 and 31 December 2016

BDO

Date of issue: Wednesday, 6 November 2019

This Circular is available in English only. Copies may be obtained during normal business hours from the registered office of Blue Label, whose address is set out in the "Corporate Information" section of this Circular, from Wednesday, 6 November 2019 until Wednesday, 4 December, 2019 (both days inclusive). A copy of this Circular will also be available on Blue Label's website (http://www.bluelabeltelecoms.co.za).

CORPORATE INFORMATION

Directors
LM Nestadt** (Independent Non-Executive Chairman)
BM Levy (Joint Chief Executive Officer)
MS Levy (Joint Chief Executive Officer)
DA Suntup (Financial Director)
GD Harlow**
KM Ellerine*
J Vilakazi**
JS Mthimunye**

** Non-Executive Directors*
*** Independent Non-Executive Directors*

Date and place of incorporation
21 July 2006
South Africa

Company Secretary and registered address
J Van Eden
75 Grayston Drive (corner Benmore)
Sandton, 2196

Transfer Secretaries
Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

Financial Adviser and Sponsor
Investec Bank Limited
(Registration number 1969/004763/06)
100 Grayston Drive
Sandton, 2196
(PO Box 785700, Sandton, 2196)

Legal Adviser
Werksmans Inc.
The Central, 96 Rivonia Road
Dennehof
Sandton, 2196

Auditor and Independent Reporting Accountant to Blue Label; the VAS Operations; and 3G Distribution for the year ended 31 May 2019 and 5 months ended 31 May 2018
PricewaterhouseCoopers Inc.
4 Lisbon Lane
Waterfall City
Jukskei View
Midrand, 2090

Independent Reporting Accountant to 3G Distribution for the years ended 31 December 2017 and 31 December 2016
BDO South Africa Inc.
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

TABLE OF CONTENTS

ACTION REQUIRED BY SHAREHOLDERS

This Circular is important and requires your immediate attention. Please take careful note of the following provisions regarding the action required by Shareholders. If you are in any doubt as to what actions to take, please consult your CSDP, Broker, banker, attorney, accountant or other professional adviser immediately.

If you have disposed of all of your Shares in Blue Label, please forward this Circular and the attached Form of Proxy (*blue*) to the purchaser of such Shares or to the CSDP, Broker, banker, attorney or other agent through whom the disposal was effected.

The General Meeting will be held in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton on Wednesday, 4 December 2019 at 10:00 (South African Standard Time) at which General Meeting Shareholders will be requested to consider and, if deemed fit, to pass, with or without modification, the resolutions set out in the Notice of General Meeting attached to this Circular.

1. DEMATERIALISED SHAREHOLDERS WHO ARE NOT OWN-NAME DEMATERIALISED SHAREHOLDERS

1.1 Voting at the General Meeting

1.1.1 Your Broker or CSDP should contact you to ascertain how you wish to cast your vote at the General Meeting and should thereafter cast your vote in accordance with your instructions.

1.1.2 If your Broker or CSDP has not contacted you, it is advisable for you to contact your Broker or CSDP and furnish it with your voting instructions.

1.1.3 If your Broker or CSDP does not obtain voting instructions from you, it will be obliged to vote in accordance with the instructions contained in the custody agreement concluded between you and your Broker or CSDP.

1.1.4 You must not complete the attached Form of Proxy (*blue*).

1.2 Attendance and representation at the General Meeting

1.2.1 In accordance with the custody agreement between you and your CSDP or Broker, you must advise your CSDP or Broker if you wish to:

1.2.1.1 attend, speak and vote at the General Meeting; or

1.2.1.2 send a proxy to represent you at the General Meeting.

1.2.2 Your CSDP or Broker should then issue the necessary letter of representation to you for you or your proxy to attend, speak and vote at the General Meeting.

2. CERTIFICATED SHAREHOLDERS AND DEMATERIALISED SHAREHOLDERS WHO ARE OWN-NAME DEMATERIALISED SHAREHOLDERS

2.1 Voting and attendance at the General Meeting

2.1.1 You may attend the General Meeting in person and may vote at the General Meeting.

2.1.2 Alternatively, you may appoint a proxy to represent you at the General Meeting by completing the attached Form of Proxy (*blue*) in accordance with the instructions contained therein and lodging it, posting it or sending it via e-mail to the Transfer Secretaries to be received by them preferably by no later than 10:00 (South African Standard Time) on Tuesday, 3 December 2019 provided that any Form of Proxy not delivered to the Transfer Secretaries by this time may be handed to the chairperson of the General Meeting prior to the commencement of the General Meeting, at any time before the appointed proxy exercises any Shareholder rights at the General Meeting.

Hand deliveries to:
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

Postal deliveries to:
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown, 2107
Email address: proxy@computershare.co.za

SALIENT DATES AND TIMES

The definitions and interpretations commencing on page 5 apply to the section below.

Salient dates relating to the General Meeting	**2019**
Record date for Shareholders to be recorded in the Register in order to receive this Circular	Friday, 1 November
Announcement of distribution of Circular and notice convening the General Meeting released on SENS on	Monday, 4 November
Circular incorporating the Notice of General Meeting and Form of Proxy (*blue*), distributed to Shareholders on	Wednesday, 6 November
Last day to trade Shares in order to be recorded in the Register to vote at the General Meeting (see note 2 below) on	Tuesday, 26 November
Record date for a Shareholder to be registered in the Register in order to be eligible to attend and participate in the General Meeting and to vote thereat, by close of trade on	Friday, 29 November
Forms of Proxy (*blue*) in respect of the General Meeting to be lodged at the Transfer Secretaries, preferably by 10:00 on	Tuesday, 3 December
Forms of Proxy (*blue*) not lodged with the Transfer Secretaries to be handed to the chairperson of the General Meeting before the proxy exercises the rights of the Shareholder at the General Meeting on	Wednesday, 4 December
General Meeting to be held at 10:00 on	Wednesday, 4 December
Results of the General Meeting published on SENS on	Wednesday, 4 December
VAS Operations Transaction anticipated to be implemented on or about	Friday, 20 December
3G Distribution Transaction anticipated to be implemented on or about	Friday, 20 December

Notes:

1. *The above dates and times are subject to amendment at the discretion of Blue Label. Any such amendment will be released on SENS.*
2. *Shareholders should note that as transactions in Shares are settled in the electronic settlement system used by Strate, settlement of trades takes place three Business days after such trade. Therefore, Shareholders who acquire Shares after close of trade on Tuesday, 26 November 2019 will not be eligible to attend, participate in and vote at the General Meeting.*
3. *All dates and times indicated above are South African Standard Time.*

DEFINITIONS AND INTERPRETATIONS

In this Circular, unless the context indicates otherwise, reference to the singular shall include the plural and vice versa, words denoting one gender include the others, words and expressions denoting natural persons include juristic persons and associations of persons and the words and expressions in the first column have the meanings stated opposite them in the second column.

"3G Distribution"	3G Mobile and its Subsidiary/ies (being PhoneFast, Palmfree, TGI, TGM and their Subsidiaries as detailed in Section 3, but excluding CEC which will be distributed to TPC in specie);
"3G Distribution Agreement"	the sale of shares agreement entered into between TPC, DNI and 3G Mobile on 25 September 2019, whereby Blue Label agreed to sell and DNI agreed to acquire the 3G Distribution Sale Interest;
"3G Distribution Claims"	all amounts of any nature whatsoever, excluding the trading amounts owing by 3G Distribution to TPC on the 3G Distribution Effective Date from any cause whatsoever, including by way of loan account or otherwise, in contract or in delict, actual or contingent, and includes any interest accrued thereon;
"3G Distribution Effective Date"	the fifth Business day after the date on which the last of the 3G Distribution Suspensive Conditions is fulfilled or waived, as the case may be;
"3G Distribution Sale Interest"	the 3G Distribution Sale Shares and 3G Distribution Claims;
"3G Distribution Sale Shares"	402 659 ordinary shares of 3G Mobile which are owned by TPC, comprising 100% of the issued ordinary shares of 3G Mobile as at the 3G Distribution Signature Date and the 3G Distribution Effective Date;
"3G Distribution Signature Date"	the date on which the last party to the 3G Distribution Agreement signed the 3G Distribution Agreement, being 25 September 2019;
"3G Distribution Suspensive Conditions"	all of the suspensive conditions precedent listed in the 3G Distribution Agreement;
"3G Distribution Transaction"	the sale by TPC of the 3G Distribution Sale Interest to DNI in terms of the 3G Distribution Agreement;
"3G Mobile"	3G Mobile Proprietary Limited (registration number 2006/007512/07), a private company with limited liability, duly incorporated in South Africa, with its registered address at RTT head office, HVDC building, corner Springbok and Jones Road, Bartlett, Boksburg, Gauteng, 1459 and a wholly owned subsidiary of TPC;
"Airvantage Agreements"	collectively: – the written agreement in terms of which Blue Label acquired shares in Airvantage SA dated on or about 2 January 2018; – the written agreement in terms of which Blue Label acquired shares in AV Technology dated on or about 1 August 2018; – the written share exchange agreement in terms of which Blue Label Mobile acquired shares in Airvantage SA dated on or about 3 June 2019; and – the written share exchange agreement in terms of which Blue Label Mobile acquired shares in AV Technology dated on or about 8 July 2019;
"AV Technology"	AV Technology Limited (registration number 110552 C1/GBL), a company incorporated in Mauritius in which Blue Label Mobile holds a 60% interest;
"Airvantage SA"	Airvantage Proprietary Limited (registration number 2012/030735/07), a private company incorporated in South Africa in which Blue Label Mobile holds a 60% interest;
"Blue Label" or the "Company" or "BLT"	Blue Label Telecoms Limited (registration number 2006/022679/06), a public company duly incorporated in South Africa, with its registered address at 75 Grayston Drive, Sandown, Sandton, Gauteng, 2196;
"Blue Label Group" or "Group"	Blue Label and its Subsidiaries;

"Blue Label Mobile"	Blue Label Mobile Group Proprietary Limited (registration number 2018/100410/07), a private company duly incorporated in South Africa in which Blue Label holds an 85% interest;
"Business day"	any day, other than a Saturday, Sunday or public holiday in South Africa;
"Board" or "Directors"	the directors of Blue Label from time to time, comprising, as at the Last Practicable Date, those persons whose names appear in the "Corporate Information" section of this Circular;
"Broker"	any person registered as a "broking member (equities)" in accordance with the provisions of the Financial Markets Act;
"CEC"	Comm Equipment Company Proprietary Limited (registration number 2014/180727/07), a private company incorporated in South Africa and a wholly owned subsidiary of 3G Mobile;
"Cell C"	Cell C Limited (registration number 1999/007722/06), a public company duly incorporated in South Africa in which Blue Label holds a 45% interest;
"Cellfind"	Cellfind Proprietary Limited (registration number 2003/020255/07), a private company incorporated in South Africa and a wholly owned subsidiary of Blue Label Mobile;
"Certificated Shareholders"	Shareholders who hold Certificated Shares;
"Certificated Shares"	Shares which have not yet been Dematerialised, title to which is represented by a share certificate or other Document of Title;
"CIPC"	the Companies and Intellectual Properties Commission;
"Circular"	this bound document dated Wednesday, 6 November 2019 to Shareholders, including all annexures hereto;
"Companies Act"	the Companies Act, 2008 (Act No. 71 of 2008), as amended;
"CSDP"	a central securities depository participant registered in terms of the Financial Markets Act with whom a beneficial holder of shares holds a Dematerialised share account;
"Dematerialised"	the process by which securities held by a Certificated Shareholder are converted to, or held in, electronic form as uncertificated securities and recorded in the sub-register of Shareholders and maintained by the Broker or CSDP;
"Dematerialised Shareholders"	those Shareholders who hold Dematerialised Shares;
"Dematerialised Shares"	Shares which have been Dematerialised and incorporated into the Strate system and which are no longer evidenced by certificates or other physical Documents of Title;
"DNI"	DNI 4PL Contracts Proprietary Limited (registration number 2005/040937/07), a private company with limited liability, duly incorporated in South Africa. The effective shareholding in DNI is AJD Holdings Proprietary Limited (30%), Sabvest Finance and Guarantee Corporation Proprietary Limited (20%), PK Gain Investment Holdings Proprietary Limited (12%), FirstRand Bank Limited (acting through its Rand Merchant Bank division) (7.6%) and Net1 Applied Technologies South Africa Proprietary Limited (30.4%). The board of directors comprises Andrew James Dunn, David Alan Smaldon, Leon Rood, Herman Gideon Kotze and Alexander Michael Ramsay Smith;
"Documents of Title"	share certificates, certified transfer deeds, balance receipts or any other documents of title to Certificated Shares acceptable to Blue Label;
"Financial Adviser and Sponsor"	Investec Bank Limited (acting through its Investment Banking Division) (registration number 1969/004763/06), a public company incorporated under the laws of South Africa and conducting the business of a bank;
"Financial Markets Act"	the Financial Markets Act, 2012 (Act No. 19 of 2012), as amended;
"Form of Proxy"	for purposes of the General Meeting, the form of proxy (*blue*) for use only by Certificated Shareholders and Own-name Dematerialised Shareholders;

"General Meeting"	the general meeting of Shareholders to be held at 10:00 (South African Standard Time) on Wednesday, 4 December 2019 in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton, convened in terms of the Notice of General Meeting enclosed and forming part of this Circular, together with any reconvened general meeting held as a result of the adjournment or postponement of that general meeting;
"Holding Company"	a "holding company" as defined in the Companies Act, but also includes an entity incorporated outside South Africa which, if incorporated in South Africa, would be a "holding company" as defined in the Companies Act;
"Hyve Mobile"	Hyve Mobile Proprietary Limited (registration number 2006/014791/07), a private company incorporated in South Africa, 50% of which is to be acquired by Blue Label Mobile in terms of the Hyve Transaction;
"Hyve Transaction"	the written agreements entered into by Blue Label on or about 13 December 2018 in terms of which Blue Label Mobile was nominated as purchaser to purchase 50% in the issued share capital of each of Hyve Mobile and MCA from the shareholders of the respective companies. For further details refer to paragraph 3.3;
"ICASA"	Independent Communications Authority of South Africa;
"IFRS"	the International Financial Reporting Standards as issued from time to time by the International Accounting Standards Board or its successor body, as adopted or applied in South Africa;
"Independent Reporting Accountant for Blue Label"	PricewaterhouseCoopers Inc. (registration number 1998/012055/21), further particulars of which appear in the "Corporate Information" section of the Circular, being the auditor and independent reporting accountant of Blue Label;
"Independent Reporting Accountant for 3G Distribution for the years ended 31 December 2017 and 31 December 2016"	BDO Inc. (registration number 1995/002310/21), further particulars of which appear in the "Corporate Information" section of the Circular, being the independent reporting accountant of 3G Distribution;
"Independent Reporting Accountant for 3G Distribution for the year ended 31 May 2019 and the 5 months ended 31 May 2018"	PricewaterhouseCoopers Inc. (registration number 1998/012055/21), further particulars of which appear in the "Corporate Information" section of the Circular, being the auditor and independent reporting accountant of 3G Distribution;
"Independent Reporting Accountant for the VAS Operations"	PricewaterhouseCoopers Inc. (registration number 1998/012055/21), further particulars of which appear in the "Corporate Information" section of the Circular, being the auditor and independent reporting accountant of the VAS Operations;
"Investec"	Investec Bank Limited (registration number 1969/004763/06), a public company with limited liability, duly incorporated in South Africa;
"JSE"	JSE Limited (registration number 2005/022939/06), a public company incorporated under the laws of South Africa and which is licensed as an exchange in terms of the Financial Markets Act;
"JSE Listings Requirements"	the Listings Requirements of the JSE;
"Last Practicable Date"	the last practicable date before finalisation of this Circular, which date was Tuesday, 29 October 2019;
"Legal Adviser" or "Werksmans"	Werksmans Incorporated (registration number 1990/007215/21), a private company duly incorporated in accordance with the laws of South Africa;
"Malik"	Malik Investment Holdings Proprietary Limited (registration number 2003/014068/07), a private company duly incorporated in South Africa;
"MCA"	Mobile Content Africa Limited (company number 130976C1/GBL), a private company duly incorporated in Mauritius, 50% of which is to be acquired by Blue Label Mobile in terms of the Hyve Transaction;
"MOI"	the memorandum of incorporation of Blue Label;
"Notice of General Meeting"	the notice of the General Meeting of Shareholders, forming part of this Circular;

“Own-Name Registration” or “Own-Name Dematerialised Shareholders”	Shareholders who hold Dematerialised Shares and are recorded by the CSDP on the sub-register kept by that CSDP in the name of such Shareholder;
“Palmfree”	Palmfree Holdings Proprietary Limited (registration number CO2018/1273), a private company duly incorporated in Botswana and a wholly owned subsidiary of 3G Mobile;
“Panacea”	Panacea Mobile Proprietary Limited (registration number 2012/158791/07), a private company incorporated in South Africa in which Blue Label holds a 51% interest;
“PhoneFast”	PhoneFast Proprietary Limited (registration number 2011/108716/07), a private company duly incorporated in South Africa and a wholly owned subsidiary of 3G Mobile;
“Proposed Transactions”	the VAS Operations Transaction and the 3G Distribution Transaction;
“Rand” or “R”	South African Rand;
“Register”	the register of Certificated Shareholders maintained by the Transfer Secretaries and the sub-register of Dematerialised Shareholders maintained by the relevant CSDPs;
“SENS”	the Stock Exchange News Service of the JSE;
“Shareholders” or “Blue Label Shareholders”	registered holders of Shares;
“Shares”	no par value ordinary shares in the Company’s share capital;
“Simigenix”	Simigenix Proprietary Limited (registration number 2013/017113/07), a private company incorporated in South Africa in which Blue Label holds a 50.4% interest;
“South Africa”	the Republic of South Africa;
“South African Standard Time”	the time zone used by all of South Africa, Botswana, the kingdoms of Lesotho and eSwatini, which zone is 2 hours ahead of Coordinated Universal Time;
“Strate”	Strate Proprietary Limited (registration number 1998/022242/07), a private company incorporated under the laws of South Africa, being a licensed central securities depository in terms of section 1 of the Financial Markets Act and the entity that manages the electronic custody, clearing and settlement environment for all share transactions concluded on the JSE and off-market, and in terms of which transactions in securities are settled and transfers of ownership in securities are recorded electronically;
“Subsidiary”	a “subsidiary” as defined in the Companies Act;
“TGI”	Three G International Limited (company number 79682), a company duly incorporated in Seychelles and a wholly owned subsidiary of 3G Mobile;
“TGM”	Three G Mobile (Namibia) Proprietary Limited (company number 2010/0023), a private company duly incorporated in Namibia in which 3G Mobile holds a 98% interest;
“TPC”	The Prepaid Company Proprietary Limited (registration number 1999/016716/07), a private company duly incorporated in South Africa and a wholly owned subsidiary of Blue Label;
“Transfer Secretaries”	Computershare Investor Services Proprietary Limited (registration number 2004/003647/07), a private company incorporated under the laws of South Africa, the particulars of which are set out in the “Corporate Information” section of this Circular;
“Treasury Shares”	Shares beneficially owned by Blue Label and by Subsidiaries of Blue Label;
“Value Added Tax” or “VAT”	value added tax, as levied in terms of the VAT Act;
“VAS Operations”	Blue Label Mobile including its Subsidiaries as detailed in Section 2;
“VAS Operations Agreement”	the sale of shares agreement entered into between Blue Label, DNI and Blue Label Mobile on 25 September 2019, whereby Blue Label agreed to sell and DNI agreed to acquire the VAS Operations Sale Interest;
“VAS Operations Suspensive Conditions”	all of the suspensive conditions precedent listed in the VAS Operations Agreement;

"VAS Operations Effective Date"	the fifth Business day after the date on which the last of the VAS Operations Suspensive Conditions is fulfilled or waived, as the case may be;
"VAS Operations Signature Date"	the date on which the last party to the VAS Operations Agreement signed the VAS Operations Agreement, being 25 September 2019;
"VAS Operations Transaction"	the sale by Blue Label of the VAS Operations Sale Interest to DNI in terms of the VAS Operations Agreement;
"VAS Operations Sale Interest"	809 ordinary shares of Blue Label Mobile which will comprise 85% of the issued ordinary shares therein and all claims on loan account that Blue Label has against Blue Label Mobile;
"VAT Act"	the Value Added Tax Act 1991, (No. 89 of 1991), as amended; and
"ViaMedia"	ViaMedia Proprietary Limited (registration number 2002/012800/07), a private company incorporated in South Africa and a wholly owned subsidiary of Blue Label Mobile.

BLUE LABEL TELECOMS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU ISIN: ZAE000109088
("**Blue Label**" or "**the Company**")

Directors:
LM Nestadt** (Independent Non-Executive Chairman)
BM Levy (Joint Chief Executive Officer)
MS Levy (Joint Chief Executive Officer)
DA Suntup (Financial Director)
GD Harlow**
KM Ellerine*
J Vilakazi**
JS Mthimunye**

** Non-Executive Directors*
*** Independent Non-Executive Directors*

CIRCULAR TO SHAREHOLDERS

SECTION 1: INTRODUCTION

1. INTRODUCTION AND PURPOSE OF THIS CIRCULAR

1.1 Shareholders are referred to the announcement by Blue Label on SENS on Wednesday 25 September 2019, advising that Blue Label had entered into an agreement relating to the disposal by Blue Label of the VAS Operations Sale Interest to DNI, and that TPC, a wholly owned subsidiary of Blue Label, had entered into an agreement relating to the disposal of the 3G Distribution Sale Interest, excluding the share capital held in and loan claims against CEC, to DNI.

1.2 DNI is the counterparty to the VAS Operations Transaction and 3G Distribution Transaction and as the aggregated value of the Proposed Transactions exceeds 30% of Blue Label's market capitalisation, it meets the definition of a category 1 transaction as contemplated in section 9 of the JSE Listings Requirements and accordingly is required to be approved by the Blue Label Shareholders by an ordinary resolution of Blue Label Shareholders.

1.3 The purpose of this Circular is to:

1.3.1 provide Shareholders with the relevant information relating to the Proposed Transactions so as to enable Shareholders to make an informed decision in respect of the resolutions set out in the Notice of General Meeting enclosed within this Circular; and

1.3.2 convene the General Meeting of Shareholders in order to consider and, if deemed fit, approve the resolutions authorising the Proposed Transactions.

2. RATIONALE FOR THE PROPOSED TRANSACTIONS AND USE OF PROCEEDS

2.1 The Blue Label Group has consistently generated positive cash flows from its trading operations since its listing. These funds have been applied to dividend distributions, share buy-backs and investing activities, at all times ensuring sufficient surplus funds to facilitate working capital requirements. Over the past two years significant investments were made, necessitating an increase in interest bearing debt in order to ensure that the Group's working capital requirements continued to be met. Accordingly, the Board has made a decision to deleverage the business in order to ensure a more robust and liquid balance sheet going forward. The disposals will not have a negative impact on the extensive distribution network that Blue Label has established and will not inhibit its distribution capabilities, nor will it impact on Blue Label's ability to achieve its strategic objectives going forward.

The funds obtained from the Proposed Transactions will be applied to reduce Blue Label's current interest-bearing debt. Refer to paragraph 26 and Annexure 5 for the *pro forma* financial effects of the Proposed Transactions, including the impact on the Blue Label interest bearing borrowings.

SECTION 2: THE VAS OPERATIONS TRANSACTION

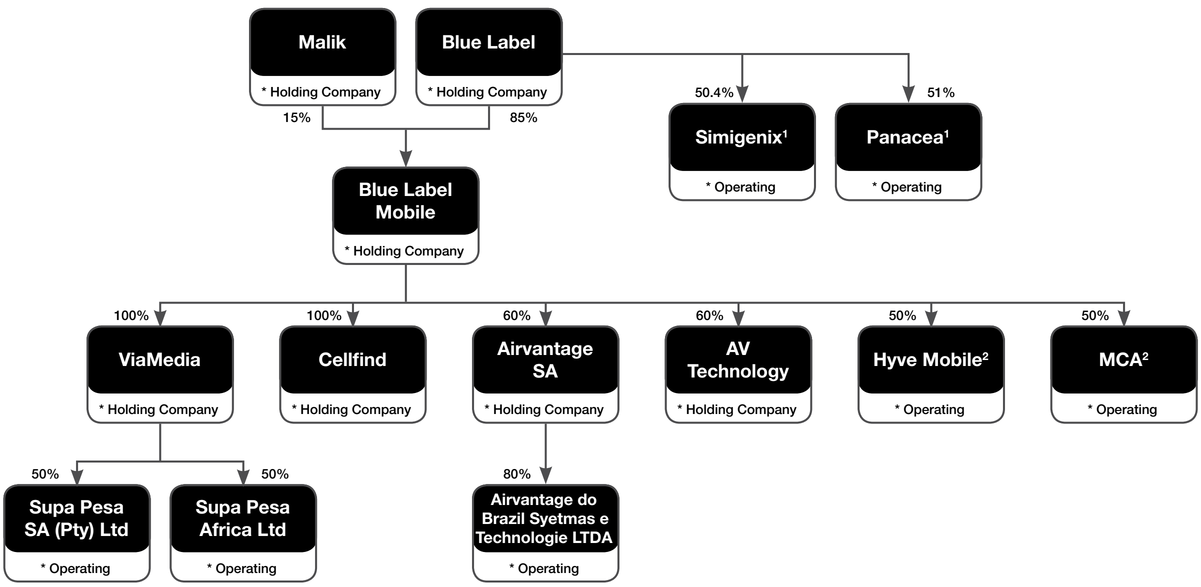
3. VAS OPERATIONS

3.1 VAS Operations provides mobile phone users with a complete ecosystem of services that include smartphone applications, wireless application protocol (WAP), multimedia messaging services (MMS), e-mail, location-based services (LBS), instant messaging, web messaging, SMS and unstructured supplementary service data (USSD).

3.2 On 3 June 2019, Blue Label restructured its holdings in Cellfind, ViaMedia, Airvantage SA and AV Technology. Prior to the restructure, Blue Label owned 100% of Cellfind, 60% of Airvantage SA, 60% of AV Technology and 75% of ViaMedia. Malik, a non-Group company, owned 25% of ViaMedia. In terms of the restructure, Blue Label exchanged its shares in Cellfind, ViaMedia, Airvantage SA and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile. Malik thereafter exchanged its 25% shareholding in ViaMedia for 10.49% in Blue Label Mobile. Following this, Malik subscribed for a further 4.51% in Blue Label Mobile for R34 million, increasing its shareholding in Blue Label Mobile to 15% with Blue Label owning the remaining 85%.

3.3 Subsequent to the restructure, Blue Label assigned its rights and obligations to acquire 50% of Hyve Mobile and MCA to Blue Label Mobile. Of the initial amount of R80 million payable to the shareholders of Hyve Mobile and MCA, R57 million plus an escalation amount of R1.6 million has been paid to date. On payment of the balance of R23 million as escalated in terms of the Hyve Transaction, Blue Label Mobile's 50% shareholding in Hyve Mobile and MCA will become effective. Thereafter, three additional tranches totalling an estimated R90.4 million will be payable over a three-year period based on performance targets. Blue Label Mobile has a call option to acquire a further 25% of Hyve Mobile and MCA, exercisable up until 30 September 2021, for an estimated purchase consideration of R85.2 million. At the time of entering into the Hyve Transaction (13 December 2018), the consideration as described above represented less than 5% of Blue Label's market capitalisation.

3.4 VAS Operations group structure post 31 May 2019:



Notes:

1. *Pre the implementation of the VAS Operations Transaction, Blue Label Mobile will acquire from Blue Label its shareholdings in Simigenix and Panacea.*
2. *Blue Label Mobile's interest in Hyve Mobile and MCA will become effective on payment of the balance of the purchase consideration, as described in paragraph 3.3 above and will form part of the VAS Operations Transaction.*

4. OVERVIEW OF THE VAS OPERATIONS TRANSACTION

4.1 In terms of the VAS Operations Transaction, Blue Label will sell to DNI the VAS Operations Sale Interest.

4.2 The consideration payable by DNI to Blue Label in respect of the VAS Operations Sale Interest is:

4.2.1 R350 million plus the amounts Blue Label have disbursed for the acquisition of 50% of Hyve Mobile and MCA (expected to be R80 million as escalated in terms of the Hyve Transaction), payable on the VAS Operations Effective Date; and

4.2.2 R100 million, which shall escalate at the prime rate plus 2% (compounding monthly in arrears) from the VAS Operations Effective Date until the date upon which the board of directors of Cell C resolve that Cell C passes the solvency and liquidity test set out in section 4 of the Companies Act. Further information relating to Cell C is included on pages 8, 11, 21 and 55 – 57 of the Blue Label Group 31 May 2019 annual financial statements.

4.3 As the acquisition of 50% of Hyve Mobile and MCA is included in the VAS Operations Transaction, all payments made by Blue Label up and until the VAS Operations Effective Date will be refundable by DNI and this is in excess of the R350 million purchase consideration and R100 million deferred purchase consideration as detailed in 4.2.1 and 4.2.2 above. The liability for the three additional tranches based on performance targets totalling an estimated R90.4 million and Blue Label Mobile's call option to acquire a further 25% of Hyve Mobile and MCA as described in paragraph 3.3 above, will transfer to DNI on the VAS Operations Effective Date.

4.4 Blue Label has a put option against it and call option in favour of it on the remaining 40% shareholding in Airvantage SA and AV Technology. Post-disposal of the VAS Operations, Blue Label will continue to assume the obligation with respect to the put option, until such time as the liquidity and solvency status of Cell C is proven. At that stage the obligation in respect of the put options will transfer to Blue Label Mobile. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of either entities. The put option may be exercised during the 90-day period following signature of the 31 May 2020 audited results and the call may be exercised for a period of 90 days after the put expires. The value is determined at 6 x the net profit after tax per the 31 May 2020 audited results.

4.5 Should Blue Label be obligated to meet the commitment relating to the aforesaid put option, and the liquidity and solvency of Cell C is never proven thereafter, then the R100 million deferred purchase consideration referred to in 4.2.2 above will not be payable, but Blue Label Mobile will be obliged to transfer 24% of the issued share capital of Airvantage SA and AV Technology back to Blue Label, resulting in Blue Label ownership of these entities amounting to 64%.

4.6 Should Blue Label be obligated to meet the commitment relating to the aforesaid put option, and the liquidity and solvency of Cell C is proven thereafter, then the R100 million deferred purchase price will be payable to Blue Label plus the cost of the 40% put option shares that will be transferred to Blue Label Mobile.

5. THE VAS OPERATIONS SUSPENSIVE CONDITIONS

The VAS Operations Transaction is subject to, *inter alia,* the fulfilment or waiver of the following suspensive conditions:

5.1 By no later than 8 November 2019

5.1.1 Blue Label has procured the delivery of all accounts relating to Blue Label Mobile which Blue Label has warranted to DNI and DNI has confirmed that it is satisfied with such accounts;

5.1.2 any pre-emptive rights required to be waived to effect the VAS Operations Transaction are waived;

5.1.3 to the extent required by DNI, any adverse contractual consequence which may be triggered by the VAS Operations Transaction are waived;

5.1.4 to the extent required by DNI, any third-party consents required to be waived to effect the VAS Operations Transaction are obtained;

5.1.5 the trading agreement between Airvantage SA, Hyve Mobile and ViaMedia on the one hand and Cell C on the other has been extended for 4 years and 9 months after 30 November 2019 upon terms agreeable to DNI; and

5.1.6 DNI has confirmed that it is satisfied with the terms of the agreements in terms of which Blue Label Mobile was restructured and the terms upon which Blue Label Mobile acquired its shares in Hyve Mobile, Airvantage SA and AV Technology.

5.2 by not later than 15 December 2019

5.2.1 the Blue Label Shareholders shall have approved the VAS Operations Transaction by way of an ordinary resolution; and

5.2.2 regulatory approvals, if any, required by *inter alia* ICASA, the competition authorities, the Financial Surveillance Department of the South African Reserve Bank and the Takeover Regulations Panel for the implementation of the VAS Operations Transaction shall have been granted.

6. THE VAS OPERATIONS EFFECTIVE DATE

The effective date of the VAS Operations Transaction shall be the fifth Business day after the date on which the last of the VAS Operations Suspensive Conditions are fulfilled or waived.

7. HISTORICAL FINANCIAL INFORMATION OF THE VAS OPERATIONS

7.1 The value of the net assets of the VAS Operations attributable to equity holders of Blue Label at 31 May 2019 was R567 million and the attributable loss for the 12 months then ended, was R38 million. Refer to note 10 in the audited special purpose combined carve-out historical financial information for the VAS Operations, as annexed hereto as Annexure 1, for further information relating to dividends declared by the VAS Operations subsequent to 31 May 2019.

7.2 The audited special purpose combined carve-out historical financial information for the VAS Operations for the year ended 31 May 2019 and the reviewed special purpose combined carve-out historical financial information for the VAS Operations for the years ended 31 May 2018 and 2017, is annexed hereto as Annexure 1.

7.3 The reports of the Independent Reporting Accountant for the VAS Operations in respect of the special purpose combined carve-out historical financial information of the VAS Operations referred to in paragraph 7.2 above, appear in Annexure 2A and 2B to this Circular.

7.4 Copies of the aforementioned special purpose combined carve-out historical financial information of the VAS Operations will also be available for inspection by Shareholders during normal business hours at the registered office of Blue Label from the date of publication of this Circular until the date of the General Meeting (both days inclusive).

8. FURTHER INFORMATION RELATING TO THE VAS OPERATIONS

8.1 Material changes

Excluding the restructure as referred to in paragraph 3.2, there have been no material changes in the financial or trading position of the VAS Operations since the end of the financial year ending 31 May 2019.

8.2 Material borrowings

There were no material borrowings as at 31 May 2019.

8.3 Material contracts

Other than the VAS Operations Agreement, the VAS Operations has not entered into any material contract either verbally or in writing that is outside the ordinary course of business in the preceding 2 years to the date of issue of this Circular or at any time prior to the date of issue of this Circular which contains an obligation or settlement that is material to the VAS Operations.

8.4 Litigation statement

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which Blue Label is aware, which may have or have over the previous 12 months had a material effect on the financial position of the VAS Operations.

9. DIRECTORS' RECOMMENDATION

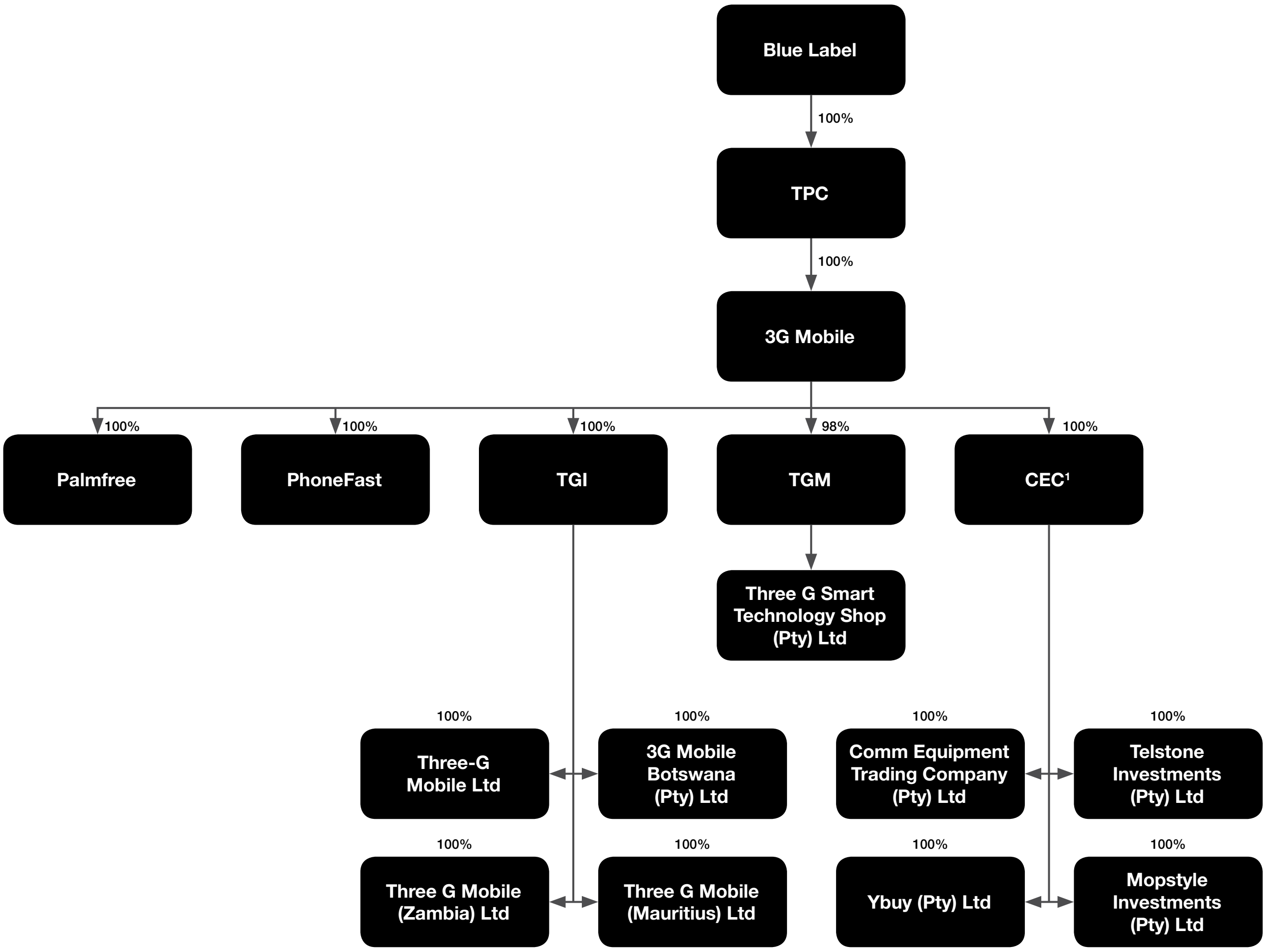
9.1 The Board has considered the terms and conditions of the VAS Operations Transaction and all members of the Board who are entitled to vote on the matter are unanimously of the opinion that the terms and conditions thereof are fair to and in the interest of Shareholders and, accordingly, recommend that Shareholders vote in favour of the resolution to be proposed at the General Meeting relating to the approval of the VAS Operations Transaction.

9.2 The Directors, in their personal capacities, intend to vote the Shares beneficially owned by them in favour of the resolutions to be proposed at the General Meeting.

SECTION 3: THE 3G DISTRIBUTION TRANSACTION

10. 3G DISTRIBUTION GROUP STRUCTURE

3G Distribution distributes mobile devices and handsets to major retailers and cellular network providers.



Note:

1. *Prior to the 3G Distribution Effective date, 3G Mobile will distribute its shareholding in CEC to TPC as a dividend in specie.*

11. OVERVIEW OF THE 3G DISTRIBUTION TRANSACTION

11.1 In terms of the 3G Distribution Transaction, TPC will sell the 3G Distribution Sale Interest to DNI.

11.2 The initial consideration payable for the 3G Distribution Transaction will be R544 million. The initial consideration will be adjusted by the net amount by which surplus / inadequate provision was made for bad debts and obsolete trading stock in the consolidated audited 2019 statement of financial position of 3G Mobile.

12. THE 3G DISTRIBUTION SUSPENSIVE CONDITIONS

The 3G Distribution Transaction is subject to*, inter alia,* the fulfilment (or waiver) of the following suspensive conditions:

12.1 by not later than 8 November 2019:

12.1.1 any pre-emptive rights required to be waived to effect the 3G Distribution Transaction are waived;

12.1.2 to the extent required by DNI, any adverse contractual consequence which may be triggered by the 3G Distribution Transaction are waived;

12.1.3 to the extent required by DNI, any third-party consents required to be waived to effect the 3G Distribution Transaction are obtained;

12.1.4 3G Mobile has notified Huawei Technologies Africa Proprietary Limited of the 3G Distribution Transaction;

12.1.5 Investec and FirstRand Bank Limited has consented to the 3G Distribution Transaction; and

12.1.6 3G Mobile has authorised a distribution to TPC of all of the issued shares held by 3G Mobile in the share capital of CEC, in terms of section 46 of the Income Tax Act and the cumulative redeemable preference shares in the 3G Mobile have either been repurchased or redeemed at an aggregate maximum value not exceeding R10,000.

12.2 on or before 15 December 2019:

12.2.1 the Blue Label Shareholders shall have approved the 3G Distribution Transaction by way of an ordinary resolution; and

12.2.2 to the extent required by law, any and all regulatory consents and approvals (as may be necessary therefore) including *inter alia* competition authorities, the Financial Surveillance Department of the South African Reserve Bank and the Takeover Regulations Panel shall have been granted, either unconditionally or subject to such conditions as have been approved in writing by that date, by DNI and (to the extent that any such conditions are imposed on it) by TPC.

13. THE 3G DISTRIBUTION EFFECTIVE DATE

The effective date of the 3G Distribution Transaction shall be the fifth Business day after the date on which the last of the 3G Distribution Suspensive Conditions are fulfilled or waived.

14. HISTORICAL FINANCIAL INFORMATION OF 3G DISTRIBUTION

14.1 The value of the net assets of 3G Distribution attributable to equity holders of Blue Label at 31 May 2019 was R541 million and the attributable profit for the 12 months then ended was R64 million.

14.2 The audited special purpose combined carve-out historical financial information for 3G Distribution for the year ended 31 May 2019, the reviewed special purpose combined carve-out historical financial information for 3G Distribution for the 5 months ended 31 May 2018 and the reviewed special purpose combined historical financial information for 3G Distribution for the years ended 31 December 2017 and 31 December 2016 are attached hereto as Annexure 3A and 3B.

14.3 The reports of the independent reporting accountants in respect of the special purpose combined carve-out historical financial information of 3G Distribution referred to in paragraph 14.2 above, appear in Annexure 4A, 4B and 4C to this Circular.

14.4 Copies of the aforementioned special purpose combined carve-out historical financial information of 3G Distribution will also be available for inspection by Shareholders during normal business hours at the registered office of Blue Label from the date of publication of this Circular until the date of the General Meeting (both days inclusive).

15. FURTHER INFORMATION RELATING TO 3G DISTRIBUTION

15.1 Material changes

There have been no material changes in the financial or trading position of 3G Distribution since the end of the financial year ended 31 May 2019.

15.2 Material borrowings

There were no material borrowings as at 31 May 2019.

15.3 Material contracts

Other than the 3G Distribution Agreement, 3G Distribution has not entered into any material contracts either verbally or in writing that is outside the ordinary course of business in the preceding 2 years to the date of issue of this Circular or at any time prior to the date of issue of this Circular which contains an obligation or settlement that is material to 3G Distribution.

15.4 Litigation statement

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which Blue Label is aware, which may have or have over the previous 12 months had a material effect on the financial position of 3G Distribution.

16. DIRECTORS' RECOMMENDATION

16.1 The Board has considered the terms and conditions of the 3G Distribution Transaction and all members of the Board who are entitled to vote on the matter are unanimously of the opinion that the terms and conditions thereof are fair to and in the interest of Shareholders and, accordingly, recommend that Shareholders vote in favour of the resolutions to be proposed at the General Meeting relating to the approval of the 3G Distribution Transaction.

16.2 The Directors, in their personal capacities, intend to vote the Shares beneficially owned by them in favour of the resolutions to be proposed at the General Meeting.

SECTION 4: INFORMATION RELATING TO BLUE LABEL

17. THE BUSINESS OF THE BLUE LABEL GROUP

Blue Label's core business is the virtual distribution of secure electronic tokens of value and transactional services across its global footprint of touch points.

18. PROSPECTS

The proceeds on the disposal of the Proposed Transactions will be applied to reducing interest bearing debt, resulting in significant savings in finance costs. The disposals will enable the Group to focus on its core distribution businesses, consistent with its ethos of the very foundation on which the group was established. Blue Label's stated strategy is to extend its global footprint of touch points, both organically and acquisitively, to meet the significant demand for the delivery of multiple prepaid products and services through a single distributor, across various delivery mechanisms and via numerous merchants or vendors.

The predominant remaining entities after the Proposed Transactions include but are not limited to:

Entity	Segment
TPC	Africa Distribution
Blue Label Distribution (Pty) Ltd	Africa Distribution
Blue Label Connect (Pty) Ltd	Africa Distribution
Cell C	Africa Distribution
Glocell (Pty) Ltd	Africa Distribution
CEC	Africa Distribution
Transaction Junction (Pty) Ltd	Africa Distribution
Cigicell (Pty) Ltd	Africa Distribution
Blue Label Mexico S.A. de C.V.	International
Blue Label Data Solutions (Pty) Ltd	Solutions
United Call Centre Solutions (Pty) Ltd	Solutions

19. SHARE CAPITAL

19.1 As at the Last Practicable Date, the authorised and issued Share capital of Blue Label, prior to implementation of the Proposed Transactions, was as follows, such share capital to remain unchanged as a result of the Proposed Transactions:

	Number of Shares	R'000
Authorised		
Ordinary Shares (par value of R0.000001 each)	2 000 000 000	2
Issued		
Ordinary Shares (par value of R0.000001 each)	904 201 466	1
Treasury Shares	9 454 407	*

Note:

** Less than R1 000*

20. MAJOR SHAREHOLDERS AND INTERESTS

As far as the Directors are aware, as at the Last Practicable Date, the following persons are the direct or indirect beneficial owners of 5% or more of the Shares in issue:

Shareholder	Number of Shares	Percentage of total issued Shares
Allan Gray Proprietary Limited	112 110 539	12.27%
Shotput Investments Proprietary Limited	100 000 000	10.95%
Legae Peresec Proprietary Limited	98 662 610	10.79%
BM Levy	84 947 715	9.30%
MS Levy	77 540 306	8.49%
Total	**473 261 170**	**51.80%**

21. MATERIAL CHANGES

There have been no material changes in the financial or trading position of Blue Label since the end of its financial year ending 31 May 2019.

22. MATERIAL CONTRACTS

Other than the VAS Operations Agreement and 3G Distribution Agreement, Blue Label has not entered into any material contracts either verbally or in writing that is outside the ordinary course of business in the preceding 2 years to the date of issue of this Circular or at any time prior to the date of issue of this Circular which contains an obligation or settlement that is material to Blue Label.

23. MATERIAL BORROWINGS

The table below details the facilities drawn down upon at 31 May 2019.

Facility	Borrower	Investec	Rand Merchant Bank	2019 R'000
Senior facility A	CEC	50%	50%	858 735
Senior facility B	CEC	50%	50%	400 196
Mezzanine facility	CEC	100%	—	410 532
Facility A	TPC	100%	—	1 512 428
				3 181 891

Further details related to these facilities are included on page 77 of Blue Label's annual financial statements which is available on Blue Label's website, https://www.bluelabeltelecoms.co.za.

24. INFORMATION RELATING TO THE DIRECTORS

24.1 Directors' interests in the issued Shares

The table below sets out the direct and indirect beneficial interests of the Directors (and their associates), including any directors who may have resigned during the last 18 months, in Blue Label's issued Shares, as at the Last Practicable Date or at the date of resignation, as applicable:

Director	Direct and indirect beneficial	Percentage of issued Shares held
BM Levy	84 947 715	9.30%
MS Levy	77 540 306	8.49%
KM Ellerine	114 660 000*	12.55%
GD Harlow	1 690 649	0.19%
JS Mthimunye	372 573	0.04%
LM Nestadt	10 000 000	1.09%
DA Suntup	4 003 856	0.44%
Total	293 215 099	32.10%

** KM Ellerine is a beneficiary of these shares together with multiple other beneficiaries.*

24.2 Directors' remuneration

The remuneration of the Directors will not be varied as a result of the Proposed Transactions. The Directors' remuneration for the year ended 31 May 2019 is included on pages 98 to 120 of Blue Label's integrated annual report which is available on Blue Label's website, https://www.bluelabeltelecoms.co.za.

24.3 Director's service contracts

Each of the Directors has concluded service contracts with terms and conditions that are standard for such appointments, a summary of which is available for inspection in terms of paragraph 33 below. Further details are also included in the Remuneration Report on pages 98 to 120 of Blue Label's integrated annual report which is available on Blue Label's website, https://www.bluelabeltelecoms.co.za

24.4 Directors' interests in the Proposed Transactions

The Directors (including any person who may have resigned as a director within the last 18 months) do not have any material beneficial interest, directly or indirectly, in the Proposed Transactions or in any transactions that were:

24.4.1 effected by Blue Label during the current or immediately preceding financial year; or

24.4.2 during an earlier financial year and remain in any respect outstanding or unperformed.

25. LITIGATION STATEMENT

There are no legal or arbitration proceedings (including any such proceedings that are pending or threatened) of which Blue Label is aware, which may have or have over the previous 12 months had a material effect on the financial position of the Blue Label Group.

26. *PRO FORMA* FINANCIAL EFFECTS OF THE PROPOSED TRANSACTIONS

The tables below set out the *pro forma* financial effects of the Proposed Transactions and are based on the published audited Group financial results of Blue Label for the year ended 31 May 2019.

The *pro forma* financial effects of the Proposed Transactions are the responsibility of the Directors of Blue Label and have been prepared for illustrative purposes only to provide information about how the Proposed Transactions may affect Blue Label Group's financial position and financial performance and, because of its nature, may not give a fair reflection of Blue Label's financial performance and position, changes in equity, and results of operations and cash flows after the Proposed Transactions.

The *pro forma* financial effects have been prepared using accounting policies that comply with IFRS and that are consistent with those applied in the published audited Group financial results of Blue Label for the year ended 31 May 2019. The *pro forma* financial effects are presented in accordance with the JSE Listings Requirements, the Guide on *pro forma* Financial Information issued by the South African Institute of Chartered Accountants and ISAE 3420 (Assurance Engagements to Report on the Compilation of *pro forma* Financial Information Included in a Prospectus).

The Directors are responsible for the compilation, contents and preparation of the *pro forma* financial effects. Their responsibility includes determining that the *pro forma* financial effects have been properly compiled on the basis stated, which is consistent with the accounting policies of the Blue Label Group and that the *pro forma* adjustments are appropriate for purposes of the *pro forma* financial information disclosed pursuant to the JSE Listings Requirements.

The *pro forma* financial effects have been calculated based on the assumptions that:

– For the purpose of calculating basic, headline and core headline earnings per share, the Proposed Transactions were implemented on 1 June 2018; and

– For the purpose of calculating net asset value per share and tangible net asset value per share, the Proposed Transactions were implemented on 31 May 2019.

Accounting treatment of the VAS Operations Transaction

R100 million of the consideration for the VAS Operations Transaction will be deferred/contingent until the solvency and liquidity status of Cell C is proven. Furthermore, Blue Label will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage SA and AV Technology, until such time as the liquidity and solvency status of Cell C is proven.

As disclosed in the published audited Group financial results of Blue Label for the year ended 31 May 2019, Cell C experienced adverse trading conditions with a significant decrease in forecast revenue and lower than anticipated growth in their subscriber base, which could result in insufficient available cash resources to settle their debts as they become due. The transactions in progress, relating to a national roaming agreement and the recapitalisation of Cell C, are ongoing.

The ability of Cell C to pass the solvency and liquidity test impacts the consideration due by DNI and consequently, the Directors present *pro forma* financial effects for the following instances:

The solvency and liquidity of Cell C is unproven

In this event, Blue Label will be obligated to meet the commitment relating to the put option on 40% of the shares in Airvantage SA and AV Technology, and if the solvency and liquidity of Cell C is unproven thereafter, then the R100 million deferred consideration will not be payable to Blue Label. However, in lieu thereof, Blue Label Mobile will transfer 24% of the issued share capital of Airvantage SA and AV Technology to Blue Label, resulting in Blue Label's ownership of these entities amounting to 64%.

The solvency and liquidity of Cell C is proven

In this event, Blue Label will be obligated to meet the commitment relating to the put option on 40% of the shares in Airvantage SA and AV Technology, and if the solvency and liquidity of Cell C is proven thereafter, then the R100 million deferred consideration will be payable to Blue Label plus the cost of the put option on 40% of the shares in Airvantage SA and AV Technology will be transferred to Blue Label Mobile.

26.1 *Pro forma* financial effects of the Proposed Transactions in the event that the solvency and liquidity of Cell C is unproven

	Before (Note 1) A	*Pro forma* after the VAS Operations Transaction (Note 2) B	*Pro forma* after the 3G Distribution Transaction (Note 3) C	*Pro forma* after the Proposed Transactions (Note 4) D	B-A	% Change C-A	D-A
Basic earnings per share (cents)	(727.81)	(749.86)	(731.31)	(753.37)	(3.0%)	(0.5%)	(3.5%)
Headline earnings per share (cents)	(312.49)	(316.70)	(315.08)	(319.30)	(1.3%)	(0.8%)	(2.2%)
Core headline earnings per share (cents)	(304.77)	(310.11)	(308.16)	(313.50)	(1.8%)	(1.1%)	(2.9%)
Total number of shares in issue	904 201 466	904 201 466	904 201 466	904 201 466			
Weighted average number of shares in issue	913 208 055	913 208 055	913 208 055	913 208 055			
Net asset value per share (cents)	262.03	249.80	260.70	248.47	(4.7%)	(0.5%)	(5.2%)
Tangible net asset value per share (cents)	(2.78)	40.32	10.45	53.55	1 551.1%	475.9%	2 027.0%

Notes and assumptions:

1. *The 'Before' column has been extracted without adjustment from the published audited Blue Label Group financial results for the year ended 31 May 2019.*
2. *The "Pro forma after the VAS Operations Transaction" column reflects the impact of the pro forma adjustments on Blue Label as a consequence of the VAS Operations Transaction, assuming that the solvency and liquidity of Cell C is unproven.*
3. *The "Pro forma after the 3G Distribution Transaction" column reflects the impact of the pro forma adjustments on Blue Label as a consequence of the 3G Distribution Transaction.*
4. *The "Pro forma after the Proposed Transactions" column reflects the combined impact of the pro forma adjustments on Blue Label as a consequence of the VAS Operations Transaction and the 3G Distribution Transaction, assuming that the solvency and liquidity of Cell C is unproven.*
5. *The detailed notes and assumptions to the pro forma financial effects are presented in Annexure 5 and the pro forma financial effects should be read in conjunction with the Blue Label pro forma group statement of financial position and the pro forma group income statement contained therein. The Independent Reporting Accountant's assurance report on the pro forma financial effects and pro forma financial information is contained in Annexure 6.*

26.2 *Pro forma* financial effects of the Proposed Transactions in the event that the solvency and liquidity of Cell C is proven (the *pro forma* financial effects for the 3G Distribution Transaction remain unchanged)

	Before (Note 1) A	*Pro forma* after the VAS Operations Transaction (Note 2) B	*Pro forma* after the 3G Distribution Transaction (Note 3) C	*Pro forma* after the Proposed Transactions (Note 4) D	B-A	% Change C-A	D-A
Basic earnings per share (cents)	(727.81)	(729.84)	(731.31)	(733.35)	(0.3%)	(0.5%)	(0.8%)
Headline earnings per share (cents)	(312.49)	(317.54)	(315.08)	(320.14)	(1.6%)	(0.8%)	(2.5%)
Core headline earnings per share (cents)	(304.77)	(311.94)	(308.16)	(315.34)	(2.4%)	(1.1%)	(3.5%)
Total number of shares in issue	904 201 466	904 201 466	904 201 466	904 201 466			
Weighted average number of shares in issue	913 208 055	913 208 055	913 208 055	913 208 055			
Net asset value per share (cents)	262.03	270.87	260.70	269.54	3.4%	(0.5%)	2.9%
Tangible net asset value per share (cents)	(2.78)	71.12	10.45	84.34	2 659.3%	475.9%	3 135.2%

Notes and assumptions:

1. *The 'Before' column has been extracted without adjustment from the published audited Blue Label Group financial results for the year ended 31 May 2019.*
2. *The "Pro forma after the VAS Operations Transaction" column reflects the impact of the pro forma adjustments on Blue Label as a consequence of the VAS Operations Transaction, assuming that the solvency and liquidity of Cell C is proven.*
3. *The "Pro forma after the 3G Distribution Transaction" column reflects the impact of the pro forma adjustments on Blue Label as a consequence of the 3G Distribution Transaction.*
4. *The "Pro forma after the Proposed Transactions" column reflects the combined impact of the pro forma adjustments on Blue Label as a consequence of the VAS Operations Transaction and the 3G Distribution Transaction, assuming that the solvency and liquidity of Cell C is proven.*
5. *The detailed notes and assumptions to the pro forma financial effects are presented in Annexure 5 and the pro forma financial effects should be read in conjunction with the pro forma group statement of financial position and the pro forma Group income statement contained therein. The Independent Reporting Accountant's assurance report on the pro forma financial effects and pro forma financial information is contained in Annexure 6.*

27. WORKING CAPITAL STATEMENT

27.1 The Board of Directors have evaluated the Blue Label Group's working capital requirements as at the Last Practicable Date and are of the opinion that the working capital available to the Blue Label Group is sufficient for the Group's present working capital requirements and will, post-implementation of the Proposed Transactions be adequate for at least 12 months from the date of issue of this Circular. This is based on the proviso that TPC's Investec banking facilities, as referred to in 27.2 and 27.3 below, have subsequently been further extended and not called upon.

27.2 With reference to the going concern assertion as contained in the Directors' report of Blue Label's annual financial statements as at 31 May 2019, TPC's Investec banking facilities, which would have expired on 30 September 2019 have been extended to 29 November 2019 and discussions are in progress for a further extension beyond that date.

27.3 As at the Last Practicable Date renegotiations of these facilities had not yet been completed, and although the Directors are of the opinion that the facilities will be extended beyond November 2019, material uncertainty exists as to whether the Group would be able to meet its working capital requirements should these facilities not be extended. In this event, certain liabilities due by the Group would not be settled in the normal course of business.

27.4 The Directors are confident that the successful completion of the Proposed Transactions, as detailed in this Circular, will result in a significant reduction in Blue Label's interest-bearing debt and consequent strengthening of Blue Label's balance sheet.

SECTION 5: GENERAL

28. EXPENSES

28.1 The estimated costs of Blue Label relating to the preparation and distribution of this Circular, holding the General Meeting and implementing the Proposed Transactions, including the fees payable to professional advisers, are approximately R7.4 million, excluding Value Added Tax, and include the following:

		R'000
Financial Adviser and Sponsor	Investec Bank	150
Legal Adviser	Werksmans	2 300
Independent Reporting Accountant to Blue Label, VAS Operations, and 3G Distribution for the year ended 31 May 2019 and the 5 months ended 31 May 2018	PricewaterhouseCoopers Inc.	3 854
Independent Reporting Accountant to 3G Distribution for the years ended 31 December 2017 and 31 December 2016	BDO	437
Tax advisory fee	PricewaterhouseCoopers Inc.	470
Printing, publication and distribution	Bastion	177
JSE documentation fees	JSE	50
Total		7 438

29. GENERAL MEETING AND VOTING

29.1 The General Meeting of Shareholders will be held in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton at 10:00 (South African Standard Time) on Wednesday, 4 December 2019, to consider and, if deemed fit, to pass, with or without modification, the requisite resolutions required to give effect to the Proposed Transactions.

29.2 A notice convening the General Meeting is attached hereto and forms part of this Circular and contains the resolutions to be considered at the General Meeting. Full details of the action required by Shareholders are set out in the "Action required by Shareholders" section of this Circular.

30. DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, whose names are listed in the "Corporate Information" section of this Circular, collectively and individually accept full responsibility for the accuracy of the information given in this Circular and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this Circular contains all information required by the JSE Listings Requirements.

31. ADVISERS' CONSENTS

Each of the advisers, whose names appear in the "Corporate information" section of this Circular, have consented in writing to act in the capacities stated and to the inclusion of their names and, where applicable, to the inclusion of their reports in this Circular in the form and context in which they appear and have not withdrawn their consent prior to the publication of this Circular.

32. DISCLOSURE OF CONFLICTS OF INTEREST

Shareholders are advised that Investec (acting through its Investment Banking Division) has been appointed as Financial Adviser and Sponsor in relation to the Proposed Transactions.

In its capacity as Financial Adviser and Sponsor, Investec has confirmed to the JSE and Blue Label that there is no matter that would impact on its ability to exercise reasonable care and judgment to achieve and maintain independence and objectivity in professional dealings in relation to Blue Label, and that would impact on its ability to act within the Code of Conduct as set out in the JSE Listings Requirements.

Investec has various internal procedures in place to ensure that its ability to act independently as Sponsor is not compromised. Pursuant to these internal procedures, Investec has a compliance control room function that identifies and manages conflict risks and ensures that strict "corporate walls" are maintained to ensure that, as Sponsor, it is able to act independently from other divisions within Investec. Investec enforces and implements physical and logical access restrictions to information, which is limited to deal teams for whom the information is relevant, for the purpose of fulfilling the client mandate.

33. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents, or copies thereof, will be available for inspection by Shareholders during normal business hours at the registered office of Blue Label from the date of publication of this Circular until the date of the General Meeting (both days inclusive):

- the MOI;
- the written consents of each of the advisers referred to in paragraph 31 of this Circular;
- the audited annual financial statements of Blue Label for the financial years ended 31 May 2019, 31 May 2018 and 31 May 2017;
- the audited special purpose combined carve-out historical financial information for the VAS Operations for the year ended 31 May 2019 and the reviewed special purpose combined carve-out historical financial information for the VAS Operations for the years ended 31 May 2018 and 2017;
- the audited special purpose combined carve-out historical information for 3G Distribution for the year ended 31 May 2019, the reviewed special purpose combined carve-out historical information for 3G Distribution for the 5 months ended 31 May 2018 and the reviewed special purpose combined historical information for 3G Distribution for the years ended 31 December 2017 and 31 December 2016;
- the Independent Reporting Accountant's audit report on the special purpose combined carve-out historical financial information of the VAS Operations for the financial year ended 31 May 2019;
- the Independent Reporting Accountant's review report on the special purpose combined carve-out historical financial information of the VAS Operations for the financial years ended 31 May 2018 and 2017;
- the Independent Reporting Accountant's audit report on the special purpose combined carve-out historical financial information of 3G Distribution for the financial year ended 31 May 2019;
- the Independent Reporting Accountants review report on the special purpose combined carve-out historical financial information for 3G Distribution for the 5 months ended 31 May 2018;
- the Independent reporting Accountants review report on the special purpose combined historical financial information for 3G Distribution for the years ended 31 December 2017 and 31 December 2016;
- the special purpose historical financial information for AV Technology for the year ended 31 May 2019 and the Independent Reporting Accountant's audit report thereon;
- the Independent Reporting Accountant's report on the *pro forma* financial information for Blue Label;
- the VAS Operations Agreement and 3G Distribution Agreement;
- a summary of Directors' and managements' service agreements; and
- a signed copy of this Circular and all annexures thereto.

By order of the Board

Blue Label Telecoms Limited
Per: **BM Levy and MS Levy**
Joint Chief Executive Officers

Sandton
Wednesday, 6 November 2019

SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF THE VAS OPERATIONS FOR THE 3 FINANCIAL YEARS ENDED 31 MAY 2019

INTRODUCTION TO THE SPECIAL PURPOSE COMBINED CARVE OUT HISTORICAL FINANCIAL INFORMATION OF THE VAS OPERATIONS FOR THE 3 FINANCIAL YEARS ENDED 31 MAY 2019

This report on the special purpose combined carve-out historical financial information of Blue Label Mobile Holdings Proprietary Limited (Blue Label Mobile or BLM Holdings or BLM) including ViaMedia Proprietary Limited (ViaMedia), Cellfind Proprietary Limited (Cellfind), Airvantage Proprietary Limited (Airvantage SA), AV Technology Limited (AV Technology), Simigenix Proprietary Limited (Simigenix) and Panacea Mobile Proprietary Limited (Panacea) (collectively the VAS Operations) should be read in conjunction with the Circular to Blue Label Telecoms Limited (Blue Label or the Company or BLT) shareholders dated 6 November 2019 prepared in connection with the disposal of the VAS Operations.

The special purpose combined carve out historical financial information of the VAS Operations for the years ended 31 May 2019, 2018 and 2017 (the special purpose combined carve out historical financial information of the VAS Operations) set out below has been prepared based on and more fully described in the basis of preparation set out in Note 1 to the special purpose combined carve out historical financial information of the VAS Operations.

The special purpose combined carve out historical financial information of the VAS Operations was prepared in accordance with International Financial Reporting Standards (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 and are the responsibility of the Directors of Blue Label.

The Independent Reporting Accountant's audit report on the special purpose combined carve out historical financial information of the VAS Operations for the year ended 31 May 2019 and the Independent Reporting Accountant's review report on the special purpose combined carve out historical financial information of the VAS Operations for the years ended 31 May 2018 and 2017 are included in Annexure 2A and Annexure 2B respectively to the Circular.

Commentary

Strategic overview

VAS Operations provides mobile phone users with a complete ecosystem of services that include smartphone applications, wireless application protocol (WAP), multimedia messaging services (MMS), e-mail, location-based services (LBS), instant messaging, web messaging, SMS, unstructured supplementary service data (USSD) and advances emergency top-up airtime and data to prepaid subscribers, utilising sophisticated algorithms to access their credit worthiness.

Operating results

	Audited 2019 R'000	Reviewed 2018 R'000	Reviewed 2017 R'000
Revenue	359 116	306 693	288 513
Net (loss)/profit for the year	(26 659)	48 809	60 543

Revenue

Total revenue increased by R52.4 million (17%) to R359.1 million as a result of the significant reasons expanded upon below.

Airtime lending

On 2 January 2018, Blue Label acquired 60% of Airvantage SA. Revenue for the 5 months to May 2018 amounted to R37 million compared to R88.6 million for the full year ended 31 May 2019 equating to growth of R51.7 million (140%). On 1 August 2018, Blue Label acquired 60% of AV Technology. Revenue for the 10 months to May 2019 amounted to R35 million.

Messaging services

Revenue increased by R4.2 million (4%) to R97.3 million. Much of the success in the current year was attributable to the focus on business fundamentals, specifically relating to control of messaging margins. This resulted in improved margin ratios, while still achieving some volume growth. In order to remain relevant and engaged with key clients, the VAS Operations have cemented their strategic partnerships in order to reduce and manage the historic risk of competitive disruption and margin dilution.

Value added services in the form of Content, Products or Services (VAS services)

Revenue declined by R35.9 million (25%) to R110 million. Business-to-consumer (B2C) revenue declined at a perpetual rate due to the continued market and regulatory pressures that persisted as well as new platforms and further rules imposed by the MNOs. An element of this decline in B2C revenue was compensated for by growth in the enterprise division of ViaMedia.

Net profit for the year

Profit for the year declined by R75.5 million (155%) from a profit of R48.8 million to a loss of R26.7 million.

On 2 January 2018, Blue Label acquired 60% of Airvantage SA. Net profit for the 5 months to May 2018 amounted to R14.2 million compared to R40.9 million for the full year ended 31 May 2019 equating to growth of R26.7 million (188%).

ViaMedia's performance was negatively impacted as a result of a sector-wide decline in the B2C (direct to consumer) WASP industry. Previously this was significantly offset by growth in its Enterprise division. However, over the past six months, the latter division flat-lined, which together with the continued decline in the B2C channel, caused a negative impact on operating profits with marginal growth expectations going forward. Consequently, the decline in the value-in-use of the company resulted in the impairment of goodwill of R74 million.

Partial impairments of R2.2 million and R35.4 million were recognised against the investments in joint ventures Supa Pesa South Africa Proprietary Limited and Supa Pesa Africa Limited respectively, due to a decline in revenue primarily attributable to legislative changes and loss of clientele.

On exclusion of the partial impairment of goodwill in ViaMedia and the partial impairment of the joint ventures in Supa Pesa South Africa Proprietary Limited and Supa Pesa Africa Limited, profit for the year increased by R36.2 million (74%) to R85 million.

Financial Position

	Audited 2019 R'000	Reviewed 2018 R'000	Reviewed 2017 R'000
Non-current assets	602 410	615 132	376 372
Current assets	511 776	425 904	351 618
Total assets	1 114 186	1 041 036	727 990
Capital and reserves	697 738	720 929	606 241
Non-current liabilities	88 152	75 813	22 776
Current liabilities	328 296	244 294	98 973
Total equity and liabilities	1 114 186	1 041 036	727 990

Total assets increased by R73.2 million of which current assets accounted for R85.9 million net of a decrease in non-current assets of R12.7 million.

The increase in current assets comprises primarily of increases in trade and other receivables of R49.1 million, cash and cash equivalents of R29.8 million and loans receivable from Blue Label's treasury function of R19.8 million. These increases were offset by decreases in current tax assets of R9.3 and R2.8 million in financial assets at fair value through profit and loss.

Increases in intangible assets of R42.3 million, primarily relating to the acquisition of AV Technology, were offset by a net decrease in goodwill of R19 million and a decrease in the investment in and loans to joint ventures of R33.3 million.

Liabilities increased by R96.3 million, attributable to an increase in non-current liabilities of R12.3 million and an increase in current liabilities of R84 million.

The increase in non-current liabilities was attributable to an increase in deferred taxation liabilities of R15.3 million, net of a decline in the equity compensation liability of R2.9 million.

The increase in current liabilities was primarily due to additional trade and other payables of R23.5 million and an increase in financial liabilities at fair value through profit or loss of R60.7 million.

VAS OPERATIONS STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 May

	Notes	Audited 2019 R'000	Reviewed 2018 R'000	Reviewed 2017 R'000
Revenue	1.2	359 116	306 693	288 513
Other income		3 710	3 004	5 795
Hosting and service fees		(72 259)	(89 560)	(103 796)
Employee compensation and benefit expense	5.1	(63 270)	(69 196)	(63 609)
Depreciation and amortisation		(58 387)	(26 920)	(14 324)
Impairments and net fair value gains/losses	1.3	(104 205)	(4 932)	(5 051)
Other expenses		(54 152)	(55 285)	(39 081)
Operating profit	1.3	10 553	63 804	68 447
Finance costs	1.4	(15 062)	(4 314)	(1 105)
Finance income	1.4	6 997	14 829	12 378
Share of (losses)/gains from joint ventures	2.3	(1 664)	(393)	2 226
Profit before taxation		824	73 926	81 946
Taxation	6.1	(27 483)	(25 117)	(21 403)
Net (loss)/profit for the year		(26 659)	48 809	60 543
Net (loss)/profit for the year attributable to:				
Equity holders of the parent		(38 494)	44 332	47 964
Non-controlling interest	2.2	11 835	4 477	12 579
Net (loss)/profit for the year		(26 659)	48 809	60 543
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss				
Foreign exchange gain/(loss) on translation of joint ventures		6 139	(1 587)	(7 629)
Foreign exchange gain on translation of foreign operations		10 515	591	–
Other comprehensive income/(loss) for the year, net of tax		16 654	(996)	(7 629)
Total comprehensive (loss)/income for the year		(10 005)	47 813	52 914
Total comprehensive (loss)/income for the year attributable to:				
Equity holders of the parent		(24 967)	43 426	42 242
Non-controlling interest		14 962	4 387	10 672

VAS OPERATIONS STATEMENT OF FINANCIAL POSITION

As at 31 May

	Notes	Audited 31 May 2019 R'000	Reviewed 31 May 2018 R'000	Reviewed 31 May 2017 R'000
Assets				
Non-current assets		602 410	615 132	376 372
Property, plant and equipment	4.3	7 942	8 595	6 282
Intangible assets	4.2	339 773	297 520	112 309
Goodwill	4.1	248 013	266 963	214 256
Investments in and loans to joint ventures	2.3	6 224	39 524	41 501
Loans receivable	3.5.1	–	1 469	–
Deferred taxation assets	6.2	458	1 061	2 024
Current assets		511 776	425 904	351 618
Loans to joint ventures	2.3	5 650	6 265	6 715
Inventories	4.4	153	138	254
Loans receivable	3.5.1	202 131	182 413	123 031
Trade and other receivables	3.5.2	215 293	166 198	112 111
Financial asset at fair value through profit and loss	3.5.3	3 803	6 645	8 407
Current tax assets		505	9 785	6 527
Cash and cash equivalents	3.5.4	84 241	54 460	94 573
Total assets		1 114 186	1 041 036	727 990
Equity and liabilities				
Capital and reserves		697 738	720 929	606 241
Contributions from parent		551 446	613 495	556 435
Other reserves		15 526	1 999	2 905
Non-controlling interest		130 766	105 435	46 901
Non-current liabilities		88 152	75 813	22 776
Deferred taxation liabilities	6.2	87 300	72 039	19 707
Equity compensation liability	5.2	852	3 774	3 069
Current liabilities		328 296	244 294	98 973
Trade and other payables	3.6.1	159 775	136 303	93 738
Financial liabilities at fair value through profit and loss	3.6.2	158 638	97 947	–
Equity compensation liability	5.2	268	487	1 666
Current tax liabilities		9 615	9 557	3 569
Total equity and liabilities		1 114 186	1 041 036	727 990

VAS OPERATIONS STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May

	Notes	Contributions from parent R'000	Other reserves R'000	Non-controlling interest R'000	Total R'000
Balance as at 1 June 2016		508 471	8 627	48 817	565 915
Net profit for the year		47 964	–	12 579	60 543
Other comprehensive income/(loss)		–	(5 722)	(1 907)	(7 629)
Total comprehensive income/(loss)		47 964	(5 722)	10 672	52 914
Dividends paid		–	–	(12 588)	(12 588)
Balance as at 31 May 2017		556 435	2 905	46 901	606 241
Net profit for the year		44 332	–	4 477	48 809
Other comprehensive income/(loss)		–	(906)	(90)	(996)
Total comprehensive income/(loss)		44 332	(906)	4 387	47 813
Transaction with non-controlling interest[1]	3.6.2	(93 966)	–	–	(93 966)
B-BBEE transaction[2]	9	1 399	–	–	1 399
Reserves resulting from the acquisition of subsidiary	2.1	150 732	–	66 647	217 379
Dividends paid		(45 437)	–	(12 500)	(57 937)
Balance as at 31 May 2018		613 495	1 999	105 435	720 929
Adjustment on the initial application of IFRS 9		(4 269)	–	(391)	(4 660)
Adjusted opening balance as at 1 June 2018		609 226	1 999	105 044	716 269
Net (loss)/profit for the year		(38 494)	–	11 835	(26 659)
Other comprehensive income/(loss)		–	13 527	3 127	16 654
Total comprehensive (loss)/income		(38 494)	13 527	14 962	(10 005)
Transaction with non-controlling interest[1]	3.6.2	(62 684)	–	–	(62 684)
Reserves resulting from the acquisition of subsidiary	2.1	84 187	–	23 260	107 447
Dividends paid		(40 789)	–	(12 500)	(53 289)
Balance as at 31 May 2019		551 446	15 526	130 766	697 738

Notes:

1. *This relates to initial recognition of a put option that Blue Label has on the remaining 40% shareholding in Airvantage SA and AV Technology. Refer to note 3.6.2.*
2. *The share-based payment reserve relates to a B-BBEE transaction concluded by Panacea and Simigenix (the Companies), subsidiaries of Blue Label. In October 2017 the Companies declared dividends to the full value of the Companies to Blue Label. Such dividends were immediately converted to preference shares. Subsequent to this, to increase the B-BBEE shareholding in the Companies, the Companies issued shares to Bitsana Investments Proprietary Limited for nominal value. The VAS Operations has not recognised this dilution and accounts for the Companies as wholly owned subsidiaries until the preference shares have been settled in full. The preference shares will be settled through the declaration of dividends by the Companies. There are no specified dates for this. For further information refer to Note 9.*

VAS OPERATIONS STATEMENT OF CASH FLOWS

For the year ended 31 May

	Notes	Audited 2019 R'000	Reviewed 2018 R'000	Reviewed 2017 R'000
Cash flows from operating activities				
Cash received from customers		310 021	252 606	370 729
Cash paid to suppliers and employees		(229 140)	(163 046)	(262 270)
Cash generated by operations	1.1	80 881	89 560	108 459
Interest received		1 904	2 363	3 009
Interest paid		(50)	(3)	(3)
Taxation paid		(26 524)	(24 035)	(22 865)
Net cash generated from operating activities		56 211	67 885	88 600
Cash flows from investing activities				
Acquisition of intangible assets	4.2	(10 503)	(6 754)	(4 981)
Proceeds on disposal of intangible assets		156	–	–
Proceeds on disposal of property, plant and equipment		508	195	187
Acquisition of property, plant and equipment	4.3	(3 398)	(4 511)	(4 494)
Cash acquired in acquisition of subsidiary	2.1	65 442	15 078	–
Loans repaid by joint ventures		500	450	593
Loans granted		(22 639)	(51 004)	(17 143)
Investment in Blue Label shares		(1 725)	(2 141)	(3 313)
Settlement of contingent consideration		(203)	(2 587)	–
Net cash generated by/(utilised in) investing activities		28 138	(51 274)	(29 151)
Cash flows from financing activities				
Dividends paid to non-controlling interest		(12 500)	(12 500)	(12 588)
Dividends paid to equity holders of the parent		(40 789)	(45 437)	–
Net cash utilised in financing activities		(53 289)	(57 937)	(12 588)
Net increase/(decrease) in cash and cash equivalents		31 060	(41 326)	46 861
Cash and cash equivalents at the beginning of the year		54 460	94 573	47 712
Exchange gains/(losses) on cash and cash equivalents		(1 279)	1 213	–
Cash and cash equivalents at the end of the year	3.5.4	84 241	54 460	94 573

NOTES TO THE SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF THE VAS OPERATIONS

1. ACCOUNTING FRAMEWORK

Description of the business

The special purpose combined carve-out historical financial information of the VAS Operations consists of the value-added mobile services business of Blue Label, representing the activities, assets and liabilities of the underlying businesses. The VAS Operations were historically conducted through separate legal entities; the combination of these operations is referred to as VAS Operations in the special purpose combined carve-out historical financial information.

The VAS Operations historically did not exist as a reporting group and no separate consolidated financial statements were therefore prepared for the VAS Operations. For the purpose of presenting the historical performance of the VAS Operations for the proposed disposal of the VAS Operations by Blue Label, special purpose combined carve-out historical financial information for the years ended 31 May 2019, 2018 and 2017, has been prepared.

Blue Label's investment in the VAS Operations

As outlined in the Circular, during September 2019, Blue Label was approached by a potential buyer to purchase certain entities that provide value-added mobile services, comprising:

Company	Nature of operations	Blue Label statutory shareholding as at 31 May 2019
ViaMedia and its joint ventures	Provider of mobile entertainment and information (mobile content) services to consumers through a variety of media and technology channels.	75%
Cellfind	Enabler of mobile messaging, mobile financial services, and mobile location-based services.	100%
Airvantage SA and its subsidiary	Prepaid airtime advance system offering mobile network operators airtime, data and mobile money services: the ability to advance airtime, data or mobile money to subscribers.	60%
AV Technology	Prepaid airtime advance system which offers mobile network operators the ability to advance airtime, data or mobile money to subscribers.	60%
Panacea	Enabler of mobile messaging.	51%
Simigenix	Enabler of mobile messaging.	50.49%

As discussed in paragraph 3.2 to the Circular, during June 2019, subsequent to the May 2019 year-end, there was a restructure of Blue Label's shareholding in ViaMedia, Cellfind, Airvantage SA and AV Technology through a share exchange transaction interposing a new intermediate holding company, Blue Label Mobile of which Blue Label holds 85%. For further details regarding the restructure refer to note 10. Post this restructure, Blue Label Mobile has the following shareholding in the entities:

Company	Blue Label Mobile's statutory shareholding post-restructure
ViaMedia and its joint ventures	100%
Cellfind	100%
Airvantage SA	60%
AV Technology	60%

In terms of the proposed disposal, Blue Label will dispose of its entire shareholding in Blue Label Mobile, subsequent to Blue Label Mobile's acquisition of Panacea and Simigenix. These entities have historically been under common control of Blue Label and common management and the economic activities of these entities will be legally bound together through the VAS Operations Transaction. These entities (collectively the Group or the VAS Operations) represent the reporting entity of the special purpose combined carve-out historical financial information.

Airvantage SA and AV Technology were acquired by Blue Label effective on 2 January 2018 and 1 August 2018, respectively, and have been accounted for as business combinations in the special purpose combined carve-out historical financial information in the periods in which they were acquired. Refer to note 2.1 for further information.

Basis of preparation

IFRS compliance

The VAS Operations did not historically constitute a combined legal group. The special purpose combined carve-out historical financial information of the VAS Operations is prepared by aggregating the historical financial information of the entities listed above as at and for the years ended 31 May 2019, 2018 and 2017 (the Reporting Periods).

The special purpose combined carve-out historical financial information of the VAS Operations is presented in accordance with, and complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and effective at the time of preparing the special purpose combined carve-out historical financial information of the VAS Operations, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the JSE Listings Requirements.

The special purpose combined carve-out historical financial information is prepared using the historical cost basis apart from certain financial instruments (including derivative instruments and equity investments) and cash-settled share-based payment scheme liabilities stated at fair-value.

IFRS do not specifically provide guidance for the preparation of special purpose combined carve-out historical financial information, and accordingly in preparing the special purpose combined carve-out historical financial information, certain accounting conventions commonly used in the preparation of special purpose combined carve-out historical financial information for inclusion in circulars, have been applied in accordance with IAS 8, which are discussed in more detail below. The special purpose combined carve-out historical financial information has consequently been prepared as a combination of the historic financial information recognised in the Blue Label consolidated financial statements related to the VAS Operations (predecessor accounting). The assets of the VAS Operations recognised include goodwill and intangible assets recognised in the Blue Label consolidated financial statements that relate to the VAS Operations.

The special purpose combined carve-out historical financial information for the years ended 31 May 2019, 2018 and 2017, has been prepared for the purpose of presenting, as far as practically possible, the financial position, results of operations and cash flows of the VAS Operations on a standalone basis.

The special purpose combined carve-out historical financial information is presented in South African Rand (ZAR), rounded to thousands.

The special purpose combined carve-out historical financial information was authorised for issue by the board of directors of Blue Label on 29 October 2019. Separate company historical financial information has not been prepared due to the VAS Operations not constituting a combined legal group for the historical reporting periods.

Limitations inherent to carve-out

As the special purpose combined carve-out historical financial information of the VAS Operations has been prepared on a combined basis, they may not be indicative of the future performance of the VAS Operations and do not necessarily reflect what its results of operations, financial position and cash flows would have been had the VAS Operations operated as an independent entity during the periods presented.

Basis of combination

The following principles were applied in the preparation of the special purpose combined carve-out historical financial information:

Equity

- Share capital and earnings per share – As the VAS Operations did not historically constitute a combined legal group there is no issued share capital. The information on earnings per share for the VAS Operations pursuant to IAS 33 has not been presented, as no capital structure has been presented in the special purpose combined carve-out historical financial information.
- Contribution from parent – As a result of applying predecessor accounting, the contribution from Blue Label is recognised at the carrying value of the net assets contributed to the VAS Operations at the earliest comparative period presented. This contribution represents the aggregated combined share capital and retained earnings of the entities included in the special purpose combined carve-out historical financial information of the VAS Operations at the earliest comparative period presented. The opening balance and movements in aggregated combined share capital and retained earnings of the entities included in the special purpose combined carve-out historical financial information of the VAS Operations has been described as 'Contribution from parent' in the combined statement of changes in equity of the VAS Operations.
- Other reserves – Other reserves have been separately presented and comprise the aggregated foreign currency translation reserves of the entities included in the special purpose combined carve-out historical financial information of the VAS Operations. This category of equity has been separately presented because it will be recycled to profit and loss in future periods.

Allocation of central costs

With the exception of Cellfind, all entities within the VAS Operations performed their own management and corporate functions and operated independently from the Blue Label Group. Accordingly, all corporate expenses (including payroll, finance, legal, rent etc.) and management fees have been historically recognised in the statutory financial statements of the entities comprising the VAS Operations. No allocation of central costs has therefore been made.

Blue Label Group has, however, performed certain corporate and management functions on behalf of Cellfind; these functions include payroll and human resources functions, secretarial functions, legal and compliance functions. The Blue Label Group has historically recharged these costs to Cellfind through an intra-group recharge based on specific identification. Management believes the basis on which historic intra-group recharges were made is a reasonable reflection of the utilisation of the services provided by Blue Label and the historical cost of doing business.

Share-based compensation

All forfeitable share incentive awards that have been granted to employees of the VAS Operations, were granted by the entities comprising the VAS Operations and are required to be settled by the entities themselves. The awards will be settled in Blue Label shares and therefore the schemes have been accounted for as cash-settled share-based payments arrangements in the special purpose combined carve-out historical financial information because the shares required to settle the awards are not VAS Operations' shares or shares of any entity in the VAS Operations business.

Taxation

The entities that comprise the VAS Operations have historically filed separate tax returns in the countries where these legal entities are tax resident. The income taxes have been accounted for using the separate tax return method by aggregating the tax positions of the individual entities of VAS Operations. Unused tax losses for Simigenix were historically recognised as a deferred tax asset in the separate statutory financial statements and in the Blue Label consolidated financial statements. These tax losses have been recognised as deferred tax assets in the special purpose combined carve-out historical financial information.

Goodwill and intangible assets

The goodwill and intangible assets included in the special purpose combined carve-out historical financial information are those that arose when Blue Label acquired control of the entities within the VAS Operations. During the Reporting Periods presented, goodwill was tested for impairment at an individual company level, being the cash-generating units used at that time by Blue Label to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for the VAS Operations.

Intercompany and related party transactions and balances

Transactions and balances with Blue Label and Blue Label Group companies have been disclosed as related party transactions and balances in the special purpose combined carve-out historical financial information. All intergroup transactions, balances and unrealised gains and losses on transactions between entities comprising the VAS Operations are eliminated.

Directors' remuneration has been excluded due to the VAS Operations not constituting a combined legal group for the historical Reporting Periods and not having a separate board of directors.

Segments

Segment reporting has not been included in the special purpose combined carve-out historical financial information because the VAS Operations equity and debt instruments are not currently, or planned in the future to be, traded on a public market.

Subsequent events

The Blue Label consolidated financial statements, from which these special purpose combined carve-out historical financial information was derived, were authorised for issue on 26 September 2019. Subsequent events have been considered from 31 May 2019 up to the date that the special purpose combined carve-out historical financial information was authorised for issuance. Refer to note 10.

1.1 Cash generated by operations

	2019 R'000	2018 R'000	2017 R'000
Reconciliation of operating profit to cash generated by operating activities:			
Profit before income tax	824	73 926	81 946
Adjustments for:			
Depreciation of property, plant and equipment	3 543	3 166	2 501
Amortisation of intangible assets	54 842	23 416	11 824
Fair value gain on financial instruments	(16 918)	–	–
Equity compensation benefit (Refer to Note 5.1)	(1 416)	1 668	3 053
Fair value loss on financial instruments	2 842	(2 842)	–
Impairment of property, plant and equipment	–	338	–
Impairment of goodwill	74 003	–	–
Impairment investment in joint ventures	37 690	–	–
Contingent purchase price released	–	(1 390)	(5 516)
(Profit)/Loss on disposal of property, plant and equipment	4	(158)	(78)
B-BBEE charge	–	1 399	–
Share of losses/(gains) from joint ventures	1 664	393	(2 226)
Net finance costs/(income)	8 065	(10 515)	(11 273)
Changes in working capital (excluding the effects of acquisitions of subsidiaries):			
(Increase)/decrease in inventories	(15)	116	11
(Increase)/decrease in trade and other receivables	(34 077)	(9 877)	91 585
(Decrease)/increase in trade and other payables	(50 170)	9 920	(63 368)
	80 881	89 560	108 459

1.2 Revenue

Revenue policy

As specialists in the provision of airtime lending and value added services, the VAS Operations earn revenue primarily from the provision of services through proprietary systems and platforms. The VAS Operations interact with a broad cross section of predominantly South African society, but also trades in Brazil. The VAS Operations generates its revenue based on various contractual arrangements with its customers from the major sources listed below. These sources provide context to the VAS Operations' activities and attempt to aggregate revenue by nature, extent, timing and risk. Due to the limited amount of trading outside of South Africa, information regarding the geographic and segmental analysis of revenue is not considered material to understanding the operations and revenue generated by the VAS Operations.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies as well as critical judgements and estimates made by management in the selection and application of its accounting policies related to each major revenue source.

Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminating inter-divisional sales, if applicable.

Revenue source	Performance obligations included	Recognition	Measurement and terms of sale	Critical estimates and judgements
Airtime lending	The VAS Operations facilitates the lending of airtime to customers of the cellular networks with which it has contractually agreed to facilitate this service. The airtime lending service involves facilitating the lending of airtime in fixed denominations of value to customers who meet the risk based criteria to be successfully lent to. The amount lent is recognised as an Airtime advance receivable within trade and other receivables. The customer initiates the lending transaction via their mobile device, the VAS Operations proprietary software assesses the suitability for the lend and, if successful, will arrange that the network lend the customer the requested value of airtime. When the customer performs their next airtime recharge, the lent amount plus the service fee for the lend is deducted from the amount recharged, and the transaction is completed.	Revenue from airtime lending is recognised at the gross transaction fee earned for each lend, less an estimation of the breakage losses from unsuccessful lends, at the point the transaction is initiated. It is at this point that control of the airtime is passed to the customer and the VAS Operations is effectively at risk should the lend not be successful.	Revenue is measured at the gross lending fee earned less an estimate of the breakage losses on unsuccessful lends. Each lending transaction earns the VAS Operations a gross fixed fee, a percentage of which is shared with the network operator. Airtime lent is settled with the network operator on a daily basis, who in turn settles the successful lends plus the net transaction fee with the VAS Operations daily.	The VAS Operations acts in the capacity of a principal in respect of the service fee charged for airtime lending transactions. The VAS Operations is wholly responsible for the gross amount lent, and takes on the full risk of the lending transaction at the gross transaction value should the lend be unsuccessful, accordingly the VAS Operations considers itself to act in the capacity of a principal in this transaction. The VAS Operations estimates breakage on airtime lends based on complex algorithms for the calculation thereof. These proprietary algorithms utilise historical activity records for the customer, forward looking estimates of lending viability and other metrics to calculate the risk of a lend. If the risk is within set risk parameters the lend is completed, and estimates of loss can be calculated. These algorithms are continually updated for past performance to increase estimation accuracy.

Revenue source	Performance obligations included	Recognition	Measurement and terms of sale	Critical estimates and judgements
VAS in the form of Content, Products or Services	The VAS Operations supplies VAS in the form of media and content supply, digital product supply, and other services to customers on utilising either of the following sales models: – A Subscription service model – where the customer subscribes to be able to access the content or product, or receive the service for a fixed amount of time, generally daily or weekly. – A per transaction model – where the customer pays per transaction with the content/ product/ service delivered immediately with no obligation to provide further access, products or services post finalisation of the transaction. The performance obligation in relation to the subscription model is the provision of access over time, while on the transactional model the obligation is the provision of the content/ product/ service at a point in time. These VAS's are provided either directly to customers, or to Partner operators who then on sell these to their own customers.	Revenue is recognised as follows: – Subscription services – on time proportioned basis over which the access is granted per transaction when the customer requests access to the service. – Per transaction model – At the point in time that the transaction is completed with the customer and the content/ product/ service is delivered, when there is no further obligation to perform.	Revenue from VAS is measured at the gross amount earned for each transaction. As the service is live and online, payment terms are immediate and settled with the network operator or partner content reseller on a 60 day terms.	The VAS Operations acts in the capacity of a principal in relation to the provision of VAS. The content provision is sourced from content providers, and the VAS Operations then performs in making this content available to customers and partner resellers. The VAS Operations sets the selling price/ subscription price for the content and takes inventory risk in relation to the content.

Revenue source	Performance obligations included	Recognition	Measurement and terms of sale	Critical estimates and judgements
Location based services	Location based services entitle the subscriber to access to the service for the month that they have subscribed. The service is either delivered by the VAS Operations itself as a VAS or through an outsourced model where the VAS Operations contracts with a supplier to provide the service to the subscriber. The VAS Operations' performance obligation in relation to both services is providing the customer with access to the platform/ service for the month that the subscription is active, or arranging for the service provider to stand ready to perform, dependent on the service subscribed to.	Applying the series exemption in IFRS 15, revenue is recognised on billing (monthly in arrears) as the nature of the services provided are repetitive and provided on a similar pattern of transfer across the month of provision.	Revenue is measured at the selling price of the service to the customer for the month of subscription. Refunds are not permitted and therefore do not affect the amount of revenue recognised. Revenue is billed monthly in arrears to the cellular networks who act as collection agents, and collection terms are generally 30 days from invoice.	No critical estimates or judgements are made by management in the provision of location based services. The VAS Operations acts in the capacity of a principal and recognises revenue on a gross basis.
Messaging services	Messaging services involve the delivery of a message via a least cost or high priority routing mechanism depending on the needs of the customer. Messages are delivered against customer requests who initiate the messages on the VAS Operations' portal manually or by electronic interface. The VAS Operations' performance in relation to messaging services is to arrange for the delivery of the message with the Cellular network providers. The VAS Operations does not perform in relation to the actual delivery of the message, but rather acts as a connecting bridge between the VAS Operations' customer and the cellular networks.	Revenue is recognised on a per transaction basis for each message initiated by the customer on the VAS Operations' portal.	Revenue is recognised at the net fee earned per message initiated on the portal in the capacity of an agent. Revenue is billed monthly in arrears and collection terms are generally 30 days from invoice.	The VAS Operations acts in the capacity of an agent in relation to the provision of messaging services. As the VAS Operations' performance obligation is satisfied when it has made the arrangement for the message to be delivered, and not in the delivery of the message. The VAS Operations earns only a net fee per message. Inventory risk does not arise as no inventory of messages is maintained.

Revenue earned

	2019 R'000	2018 R'000	2017 R'000
Revenue from contracts with customers			
Airtime lending	123 643	36 929	–
VAS services in the form of Content, Products or Services	110 016	145 906	182 933
Location based services	25 548	24 275	21 957
Messaging services	97 294	93 138	79 384
Other revenue	2 615	6 445	4 239
	359 116	306 693	288 513

1.3 Operating profit

	Note	2019 R'000	2018 R'000	2017 R'000
The following has been charged/(credited) in arriving at operating profit:				
Advertising and promotional expenses		1 025	1 130	2 620
Audit fees – services as auditors		2 786	1 495	1 108
Consulting fees		7 174	2 425	1 766
Foreign exchange (gain)/loss		(952)	326	391
IT infrastructure costs and computer-related costs		12 873	11 448	11 675
Legal fees		483	1 015	525
Management fees paid		6 359	5 442	4 725
Motor vehicle expenses		494	469	613
Operating lease rentals – premises		5 085	3 759	2 741
Loss on disposal of property, plant and equipment		3	21	78
Other impairments and fair value losses				
Arising from the application of IFRS 9 expected credit loss requirements:				
Impairment of loans		544	–	–
Trade receivables written off/provision for impairment		2 853	2 573	4 494
Other impairments and fair value movements:				
Impairment of joint ventures	2.3	37 690	–	–
Gain on Airvantage SA and AV Technology put option remeasurement		(16 818)		
Impairment of goodwill	4.1	74 003	–	–
Fair value movement on cash settled share scheme		5 933	2 359	557
		104 205	4 932	5 051

1.4 Finance costs and finance income

Finance costs/income are recognised in profit and loss using the effective interest rate method as the instruments to which this relates are measured at amortised cost.

	2019 R'000	2018 R'000	2017 R'000
Finance costs			
– Bank	15	3	3
– Unwinding of contingent purchase price	187	330	1 102
– Unwinding of put option liability	14 825	3 981	–
– Other	35	–	–
	15 062	4 314	1 105
Finance income			
– Bank	(1 904)	(2 363)	(3 009)
– Loans	(8)	(2)	(4)
– Related-party loans (refer to note 8)	(3 861)	(9 578)	(7 654)
– Other	(1 224)	(2 886)	(1 711)
	(6 997)	(14 829)	(12 378)
Net finance costs	8 065	(10 515)	(11 273)

2. VAS OPERATIONS COMPOSITION

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) in the VAS Operations over which Blue Label has control. Blue Label controls an entity when Blue Label is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Blue Label.

The VAS Operations applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by Blue Label. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The VAS Operations recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in profit or loss in other income or other expenses.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between VAS Operations companies are eliminated. Unrealised losses are also eliminated.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Joint ventures

Investments in joint ventures are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The VAS Operations' investment in joint ventures includes goodwill identified on acquisition. Loans made to joint ventures that are equity in nature are treated as part of the cost of the investment made.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The VAS Operations has assessed the nature of its joint arrangements and determined them to be joint ventures.

The VAS Operations' share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The carrying amount of the investment is also adjusted for the VAS Operations' share of post-acquisition movements in other net assets.

The VAS Operations determines at each reporting date if there are any indicators which would require the VAS Operations to test whether the investment in the joint venture is impaired. If this is the case, the VAS Operations calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount adjacent to share of profit/(loss) from joint ventures in the income statement.

`Dilution gains and losses arising in investments in joint ventures are recognised in the income statement.

Critical accounting judgements and assumptions

(a) Valuation of intangible assets acquired as part of a business combination

The fair values of all identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by Blue Label's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(b) Assessment of investment in joint ventures for impairment

The VAS Operations tests annually whether investment in joint ventures has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of the investment in associates and joint ventures have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Classification of significant joint arrangements

The VAS Operations exercises judgement in determining the classification of its joint arrangements.

Supa Pesa Africa Limited

ViaMedia (75% owned by the Group) holds 50% of Supa Pesa Africa Limited and Supa Pesa South Africa Proprietary Limited. Therefore, the VAS Operations equity accounts for 50% of net assets. The joint arrangement provides the VAS Operations and the other parties to the agreement with rights to the net assets of the entity. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions.

2.1 Acquisition of subsidiary

The subsidiaries acquired by VAS Operations were acquired by BLT and the costs of the acquisition were also paid by BLT. The acquisitions have been accounted for as business combinations in VAS Operations from the applicable acquisition date. Because the cost of the acquisition was not paid for by VAS Operations, the purchase consideration paid has been accounted for as a contribution from parent in equity. The cash flow for VAS Operations relates only to the cash balances acquired as part of the acquisition.

	AV Technology R'000 Owner of system that offers Mobile Network Operators the ability to advance airtime, data and mobile money to subscribers in Africa	**Airvantage SA R'000 Owner of system that offers Mobile Network Operators the ability to advance airtime, data and mobile money to subscribers**
Date acquired	1 Aug 2018	2 Jan 2018
% acquired	60%	60%
At 31 May 2019		
Assets	33 316	54 780
Liabilities	(2 425)	(23 378)
Revenue since acquisition	35 013	36 929
Profit after tax since acquisition	27 215	14 221
The fair value of the assets and liabilities at the date of acquisition are as follows:		
Cash and cash equivalents	65 442	15 078
Property, plant and equipment	–	1 005
Intangible assets	78 059	9 425
Intangible assets arising from fair value exercise	–	192 784
Loans receivable	–	9 847
Financial asset at fair value through profit and loss	–	–
Receivables	10 039	31 744
Deferred tax	(21 733)	(960)
Deferred tax arising from fair value allocation exercise	–	(53 980)
Payables	(73 658)	(40 273)
Fair value of subsidiaries acquired	58 149	164 670
Non-controlling interests	(23 260)	(66 645)
Fair value of net assets acquired	34 889	98 025
Goodwill (refer to note 4.1)	49 298	52 707
Total purchase consideration	84 187	150 732
Settled in cash by Blue Label (recognised as contribution from parent in equity)	84 187	150 732

	AV Technology R'000 Owner of system that offers Mobile Network Operators the ability to advance airtime, data and mobile money to subscribers in Africa	Airvantage SA R'000 Owner of system that offers Mobile Network Operators the ability to advance airtime, data and mobile money to subscribers
Cash inflow on acquisition of VAS Operations	65 442	15 078
Had the acquisition of these subsidiaries taken place at the beginning of the financial year, they would have contributed to revenue and net profit after tax as follows:		
Revenue	40 114	87 002
Net profit after tax	30 689	36 394

Airvantage SA was purchased with the objective of affording the VAS Operations the ability to advance airtime, data and mobile money services to mobile network subscribers.

In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Airvantage SA, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant among these is the opportunity that the prepaid airtime advance system affords the VAS Operations. The outcome of the assessment performed was the recognition of goodwill on the purchase of Airvantage to the value of R52.7 million. For further information on goodwill refer to note 4.1.

The non-controlling interests recognised as part of these acquisitions have been measured at the non-controlling interests' proportionate share of the identifiable net assets as at the acquisition date.

2.2 Non-controlling interests

Set out below is the summarised financial information relating to each subsidiary that has non-controlling interests that are material to the VAS Operations. The amounts disclosed for each subsidiary are before inter-company eliminations with other companies in the VAS Operations.

Subsidiary	**Airvantage SA**		**AV Technology**	**ViaMedia**		
Principal place of business	**RSA**		**Mauritius**	**RSA**		
NCI %	40	40	40	25	25	25
	2019 R'000	**2018 R'000**	**2019 R'000**	**2019 R'000**	**2018 R'000**	**2017 R'000**
Non-current assets	171 566	197 419	70 221	72 538	106 128	112 630
Current assets	85 613	49 517	32 922	64 598	96 753	111 395
Total assets	257 179	246 936	103 143	137 136	202 881	224 025
Capital and reserves	198 852	177 406	82 900	110 948	169 704	187 605
Non-current liabilities	45 810	52 050	17 818	13 307	15 629	16 244
Current liabilities	12 517	17 480	2 425	12 881	17 548	20 176
Total equity and liabilities	257 179	246 936	103 143	137 136	202 881	224 025
Accumulated NCI	79 541	70 962	33 160	27 737	42 426	46 901
Summarised statement of comprehensive income for the year ended 31 May						
Revenue	88 629	36 929	35 013	107 718	142 738	173 938
Total comprehensive income/(loss) for the year	21 582	6 150	24 751	(7 411)	32 099	40 905
Comprehensive income/(loss) allocated to NCI	8 633	2 460	9 900	(1 853)	8 025	10 226
Summarised cash flows for the year ended 31 May						
Cash flows from operating activities	36 524	(8 329)	(57 033)	27 487	34 953	45 006
Cash flows from investing activities	(7 910)	(2 214)	(60)	12 435	(31 217)	(17 520)
Cash flows from financing activities	(11 159)	(1 338)	–	(50 000)	(50 000)	206
Net increase/(decrease) in cash and cash equivalents	17 455	(11 881)	(57 093)	(10 078)	(46 264)	27 692
Dividends paid to NCI	–	–	–	12 500	12 500	12 588

2.3 Investments in joint ventures

The VAS Operations holds the following investments in and loans to its joint ventures, Supa Pesa South Africa Proprietary Limited and Supa Pesa Africa Limited as disclosed below:

	Cost and share of reserves			Loans			Total investments and loans		
	2019 R'000	2018 R'000	2017 R'000	2019 R'000	2018 R'000	2017 R'000	2019 R'000	2018 R'000	2017 R'000
Supa Pesa Africa Limited	6 224	37 037	38 846	–	–	–	6 224	37 037	38 846
Supa Pesa South Africa Proprietary Limited	–	2 487	2 655	5 650	6 265	6 715	5 650	8 752	9 370
	6 224	39 524	41 501	5 650	6 265	6 715	11 874	45 789	48 216
Disclosed as:									
Non-current assets	6 224	39 524	41 501	–	–	–	6 224	39 524	41 501
Current assets	–	–	–	5 650	6 265	6 715	5 650	6 265	6 715

The loans as at 31 May 2019 are neither past due nor impaired with a low risk of default. Refer to note 3.1(iii) for the credit risk considerations.

The loans to joint ventures are repayable on demand.

	Joint venture		
Company	**Supa Pesa Africa Limited**		
Principal activity	**Content provider**		
Country of incorporation	**Mauritius**		
	2019 R'000	**2018 R'000**	**2017 R'000**
Cost and share of reserves at the beginning of the year	37 037	38 846	44 464
Adjustment on the initial application of IFRS 9 and IFRS 15	(86)	–	–
Cost and share of reserves at the beginning of the year – restated for change in accounting standards	36 951	38 846	44 464
Share of results after tax	(1 433)	(222)	2 012
Foreign currency translation reserve	6 139	(1 587)	(7 630)
Impairment	(35 433)	–	–
Cost and share of reserves at the end of the year	6 224	37 037	38 846
Closing net book value	6 224	37 037	38 846

	Joint venture		
Company	**Supa Pesa Africa Limited**		
Principal activity	**Content provider**		
Country of incorporation	**Mauritius**		
	31 May 2019 R'000	**31 May 2018 R'000**	**31 May 2017 R'000**
Statement of financial position			
Non-current assets	9 930	8 515	8 862
Current assets	5 520	7 555	10 927
Cash and cash equivalents	686	125	5 324
Other current assets	4 834	7 430	5 603
	15 450	16 070	19 789
Total equity	7 780	9 304	10 283
Non-current liabilities	7 244	6 753	7 533
Current liabilities	426	13	1 973
Trade and other payables	426	13	1 973
	15 450	16 070	19 789
Effective percentage held	37.5	37.5	37.5
Net assets	7 780	9 304	10 283
Company net assets	7 780	9 304	10 283
Carrying value fair value allocation exercise net of deferred taxation	–	–	–
Interest in joint ventures*	3 890	4 652	5 142
Goodwill	37 767	32 385	33 707
Impairment	(35 433)	–	–
Balance at the end of the year	6 224	37 037	38 849

Statement of comprehensive income for the year ended

	1 June 2018 – 31 May 2019 R'000	**1 June 2017 – 31 May 2018 R'000**	**1 June 2016 – 31 May 2017 R'000**
Revenue	1 208	7 316	13 364
Operating profit before depreciation, amortisation and impairment charges	(2 231)	279	4 970
Depreciation, amortisation and impairment	–	–	–
Finance costs	(724)	(736)	(816)
Finance income	–	–	–
Net (loss)/profit before taxation	(2 955)	(457)	4 154
Taxation	89	14	(125)
Net profit/(loss) after taxation	(2 866)	(443)	4 029
Other comprehensive income/(loss)	1 514	(535)	(1 635)
Total comprehensive income/(loss)	(1 352)	(978)	2 394
Effective percentage held*	37.5	37.5	37.5
Share of total comprehensive income	(676)	(489)	1 197

	31 May 2019 R'000	31 May 2018 R'000	31 May 2017 R'000
Reconciliation to carrying amounts:			
Opening net assets	9 305	10 283	7 889
Adjustment on the initial application of IFRS 9	(172)	–	–
Profit for the year	(2 866)	(443)	4 029
Other comprehensive income	1 514	(535)	(1 635)
Closing net assets	7 781	9 305	10 283
VAS Operations' share in %*	50	50	50
VAS Operations' share in R'000	3 890	4 653	5 142
Goodwill	37 767	32 385	33 707
Impairment	(35 433)	–	–
Carrying amount	6 224	37 038	38 849

**ViaMedia (75% owned by Blue Label) holds 50% of Supa Pesa Africa Limited. Therefore the VAS Operations equity accounts for 50% of net assets.*

The VAS Operations' interest in its other joint venture, Supa Pesa South Africa Proprietary Limited, which is incorporated in South Africa and is unlisted, is as follows:

	Non-current assets R'000	Current assets R'000	Non-current liabilities R'000	Current liabilities R'000	Revenues R'000	Net profit/ (loss) R'000	Total compre-hensive profit/ (loss) R'000	Carrying value of invest-ment R'000	Effective percen-tage held %
2019	2 047	6 100	6 197	5 112	12 238	(459)	(459)	5 650	37.5
2018	664	3 361	–	6 265	11 296	(338)	(338)	8 752	37.5
2017	659	4 101	6 715	410	3 738	427	427	9 370	37.5

** ViaMedia (75% owned by Blue Label) holds 50% of Supa Pesa South Africa Proprietary Limited. Therefore the VAS Operations equity accounts for 50% of net assets.*

Impairment of joint ventures

The following investments in joint ventures were tested for impairment in line with IAS 36 due to there being impairment indicators:

- Supa Pesa SA Proprietary Limited
- Supa Pesa Africa Limited

The result was that the entities above, required an impairment charge to be recognised in the income statement. These impairments are included in 'Impairments and net fair value gains/losses' in the income statement.

This impairment was tested by comparing the recoverable amount against the carrying value of the investment in joint ventures. The recoverable amount is the higher of fair value less cost of disposal and the value-in-use. The recoverable amount was determined using the value-in-use calculation. These value-in-use calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2019		2018		2017	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Supa Pesa South Africa Proprietary Limited	3.00	18.1	4.0	19.5	4.0	20.3
Supa Pesa Africa Limited	3.00	18.1	4.0	19.5	4.0	20.3

The discount rates used are pre-tax and reflect specific risks relating to the relevant joint ventures. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the companies operate.

Partial impairments of R2.2 million and R35.4 million were recognised against the investments in Supa Pesa South Africa Proprietary Limited and Supa Pesa Africa Limited respectively in the current financial year due to a decline in revenue, primarily attributable to legislative changes and loss in clientele.

Contingent purchase consideration:

The contingent purchase consideration is the amount provided for the purchase of the investment in Supa Pesa Africa Limited.

This amount consists of provisions for future warranty payments that will be made to Supa Pesa shareholders (Supa Pesa Holdings Limited) if the Supa Pesa companies (Supa Pesa South Africa Proprietary Limited and Supa Pesa Africa Limited) reach specific targets.

The first warranty payment was made to Supa Pesa Holdings Limited on the 5th of July 2016 of R5.3 million for reaching 54.3% of their targets for the warranty cycle 1 March 2015 to 29 February 2016.

The second warranty payment was made on 11 July 2017 of R2.6 million for reaching 26.31% of their targets for the warranty cycle 1 March 2016 to 28 February 2017.

The third warranty payment of R202.5 thousand was made on 19 October 2018 for reaching 2.06% of their targets for the warranty cycle 1 March 2017 to 28 February 2018.

The calculation of the final warranty payment has been finalised and amounts to R1.9 million. Payment will be made prior to 31 May 2020 for reaching a cumulative 4% of their targets for the warranty cycle 1 March 2017 to 28 February 2019.

The warranty payments were calculated by using the following assumptions and probabilities (%):

- Percentage of targets reached by the Supa Pesa companies for the warranty cycle from 1 March 2017 to 28 February 2018: 2.06% (2017: 26.31%)
- Percentage of cumulative targets reached by the Supa Pesa companies for the warranty cycle from 1 March 2015 to 28 February 2018: 24.03% (2017: 39.01%)

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include:

Financial assets

- Loans receivable
- Loans to joint ventures
- Trade and other receivables
- Cash and cash equivalents
- Financial assets at fair value through profit and loss

Financial liabilities

- Trade and other payables
- Contingent purchase consideration (included within Trade and other payables)
- Financial liabilities at fair value through profit and loss

Financial assets and liabilities are recognised when the VAS Operations becomes a party to the contractual provisions of the instruments.

Financial assets are classified as current if expected to be realised within 12 months of the statement of financial position date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the group has the right to defer settlement beyond 12 months the statement of financial position date.

The VAS Operations classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) on the basis of the group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

Measurement category	Criteria
Amortised cost	The asset is held within a business model with the objective to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value through profit or loss	Debt investments that do not qualify for measurement at amortised cost or FVOCI (the VAS Operations does not currently hold any FVOCI instruments), equity investments that are held for trading and derivative instruments

Financial assets are not reclassified unless the VAS Operations changes its business model for managing those financial assets. In rare circumstances where the group does change its business model, reclassifications are done prospectively from the date that the group changes its business model.

Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at FVTPL.

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as at FVTPL which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. A trade receivable without a significant financing component is initially recognised at the transaction price.

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below.

Category	Subsequent measurement
Financial assets	
Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss.
Fair value through profit or loss	These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
Financial liabilities	
Amortised cost	These financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss.
Fair value through profit or loss	These financial liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the VAS Operations has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

Under IFRS 9 the VAS Operations calculates its allowance for credit losses as expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the VAS Operations in accordance with the contract and the cash flows that the VAS Operations expects to receive). ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

To calculate ECLs the VAS Operations segments/groups trade receivables by customer type, as disclosed in the Trade and Other receivables note (note 3.5.2). The VAS Operations applies the simplified approach to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables. ECLs for trade and other receivables are calculated using a provision matrix. Refer to the credit risk note (note 3.1) for more detail about ECLs and how this is calculated.

ECLs for receivables other than trade receivables have been determined using the General Approach in IFRS 9. Under the general approach, an entity calculates expected credit losses for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on Lifetime ECLs.

Financial Risk Management

In the course of its business, the VAS Operations is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the VAS Operations' objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity in the VAS Operations on a daily basis based on their specific operational requirements.

Classes of financial instruments

	2019 R'000	2018 R'000	2017 R'000
Financial assets			
Trade and other receivables*	184 647	161 490	107 127
Cash and cash equivalents	84 241	54 460	94 573
Loans to joint ventures	5 650	6 265	6 715
Loans receivable	202 131	183 882	123 031
Financial assets at fair value through profit and loss	3 803	6 645	8 407
	480 472	412 742	339 853
Financial liabilities			
Trade and other payables*	143 766	121 320	81 053
Financial liabilities at fair value through profit and loss	158 638	97 947	–
Contingent consideration	1 923	1 938	5 586
	304 327	221 205	86 639
Net financial position	176 145	191 537	253 214

** Trade and other receivables and trade and other payables exclude non-financial instruments.*

Reconciliation of financial and non-financial assets:

	2019			2018			2017		
	Total R'000	Financial asset R'000	Non-financial asset R'000	Total R'000	Financial asset R'000	Non-financial asset R'000	Total R'000	Financial asset R'000	Non-financial asset R'000
Loans receivable	202 131	202 131	–	183 882	183 882	–	123 031	123 031	–
Trade and other receivables	215 293	184 647	30 646	166 198	161 490	4 708	112 111	107 127	4 984
Financial assets at fair value through profit and loss	3 803	3 803	–	6 645	6 645	–	8 407	8 407	–
Loans to joint venture	5 650	5 650	–	6 265	6 265	–	6 715	6 715	–
Cash and cash equivalents	84 241	84 241	–	54 460	54 460	–	94 573	94 573	–
	511 118	480 472	30 646	417 450	412 742	4 708	344 837	339 853	4 984

Reconciliation of financial liabilities and non-financial liabilities:

	2019			2018			2017		
	Total R'000	Financial liabilities R'000	Non-financial liabilities R'000	Total R'000	Financial liabilities R'000	Non-financial liabilities R'000	Total R'000	Financial liabilities R'000	Non-financial liabilities R'000
Trade and other payables	157 852	143 766	14 086	134 365	121 320	13 045	88 152	81 053	7 099
Put option liability	158 638	158 638	–	97 947	97 947	–	–	–	–
Contingent consideration	1 923	1 923	–	1 938	1 938	–	5 586	5 586	–
	318 413	304 327	14 086	234 250	221 205	13 045	93 738	86 639	7 099

3.1 CREDIT RISK

Credit risk, or the risk of financial loss to the group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. The VAS Operations is exposed to credit risk on financial assets mainly in respect of those assets detailed in the table below. The carrying amounts of financial assets represent the maximum credit exposure, this exposure is considered without taking into account any collateral and financial guarantees, to be as follows:

	2019 R'000	2018 R'000	2017 R'000
Financial assets			
Trade and other receivables	184 647	161 490	107 127
Cash and cash equivalents	84 241	54 460	94 573
Loans to joint ventures	5 650	6 265	6 715
Loans receivable	202 131	183 882	123 031
	476 669	406 097	331 446

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the VAS Operations for which external credit ratings are available. External credit ratings were based on the latest Moody's default ratings. The counterparties were categorised as follows:

Group 1: Financial institutions with a Moody's long term debt issuer rating of Baa3 or better, or cash on hand.
Group 2: Fully performing, with a Moody's rating of Baa3 or better.
Group 3: Fully performing with a Moody's rating of between Ba1 and Caa2.
Group 4: Counterparties who are considered to be in default and those that have a Moody's rating of Caa3 or lower

	2019 R'000	2018 R'000	2017 R'000
Counterparties with external credit rating			
Group 1	84 241	54 460	94 573
	84 241	54 460	94 573

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the VAS Operations for which no external credit rating is available. Equivalent credit ratings were based on the latest Moody's default ratings. Management defines default as when counterparties miss payments and future payments are either suspended or unlikely. The counterparties were categorised as follows:

Group 1: Fully performing counterparties who are highly collateralised, with no external credit ratings.
Group 2: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of B1 or better.
Group 3: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of between B2 and Caa2.
Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Caa3 or lower.

	2019 R'000	2018 R'000	2017 R'000
Counterparties without external credit rating			
Group 2	5 650	6 265	6 715
Group 3	202 131	183 882	123 031
Total	207 781	190 147	129 746

Expected credit losses

The VAS Operations has the following financial assets subject to the expected credit loss model:

- Trade and other receivables
- Cash and cash equivalents
- Loans to joint ventures
- Loans receivable

Included in loans to joint ventures as well as loans receivable are amounts receivable to which the VAS Operations has applied the general impairment model. The VAS Operations has considered the financial performance, external debt and future cash flows of the related parties and based on these, determined the credit risk relating to these receivables. The VAS Operations applies the simplified approach using a provision matrix to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables.

Provision Matrix – ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write offs to the payment profile of the sales population. In instances where there was no evidence of historical write offs management used a proxy write off for similar receivables obtained from external credit rating agencies. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Exposures are mainly segmented by customer type i.e. Banks, Independent and Informal retail customers etc. This is done to allow for risk differentiation. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward-looking information (such as the core inflation rate) to determine the ECL for the portfolio of trade receivables at the reporting period to the extent that there is a strong correlation between the forward-looking information and the ECL. In most instances no material adjustments have been made due to the inclusion of forward-looking information as the majority of Trade Receivables are settled within a relatively short period (under 60 days on average).

The VAS Operations used 36 to 48 months sales data to determine the payment profile of the sales. Where the group has information about actual historical write-offs, actual write-offs have been used to determine a historic loss ratio. Alternatively, management has used a proxy write-off based on management's best estimate including information obtained from external ratings agencies. The VAS Operations has considered quantitative forward-looking information such as the core inflation rate. Qualitative assessments have also been performed, of which the impact was found to be immaterial.

Management consider trade receivables aged in excess of 90 days past due (where the excessive ageing is not caused by administrative delays that are within the control of the VAS Operations), and those handed over to the VAS Operations attorneys for legal collection processes, to be in default and accordingly increase the allowance for impairment raised on these receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. This is assessed individually by each operation and includes for example where the trade receivables have been handed over for collection and remain outstanding or the debtor has entered bankruptcy. Other receivables and other financial assets are individually assessed by management based on each situation's unique facts and circumstances and are written off when management believe that there is no reasonable expectation of recovery.

Application of the ECL model had an immaterial impact on sundry receivables.

(i) Trade and other receivables

The VAS Operations has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. A large portion of the VAS Operations' revenues are generated in South Africa. Cell C is a major customer of Airvantage SA, accounting for 95% of its revenue for the year ended 31 May 2019 and as such poses a significant customer concentration risk for Airvantage SA. During the current financial year, Cell C experienced adverse trading conditions which included a significant decrease in forecasted revenue and lower than anticipated growth in their subscriber base. This could result in insufficient available cash resources to settle their debts when due.

The directors of Airvantage SA have the following alternate plans in place to mitigate against the above concentration risk:

- To expand its customer base by providing its products and services to other mobile network operators as well; and
- To increase its licence fees receivable through expansion beyond SADC, such as in Brazil and other Latin American territories

Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific Senior Management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the receivables age analysis and follows up on long-outstanding receivables. Allowances for impairment are raised in accordance with the VAS Operations policy which has been revised to be in line with the requirements of IFRS 9. The VAS Operations' customer base has been aggregated into groupings that represent, to a large degree, how the VAS Operations manages its receivables and also illustrates the spread of credit risk. Within these aggregated groupings, the VAS Operations' exposure to credit risk is made up major retailers; wholesalers; and cellular networks; the balance of the customer base is widely dispersed.

Ageing and impairment analysis

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ Impairment ratio
31 May 2019				
Fully performing receivables				
Trade receivables arising on revenue from contracts with customers				
Banks	21 276	(2)	21 274	(0.01%)
Independent and Informal retail customers	12 500	(58)	12 442	(0.46%)
Formal market retail customers	23 384	(154)	23 230	(0.66%)
Cell C	21 206	(165)	21 041	(0.78%)
Other Cellular Networks	9 023	(2)	9 021	(0.02%)
Sundry receivables	3 418	–	3 418	–
Airtime advance receivable	33 993	–	33 993	–
Past due receivables				
Trade receivables arising on revenue from contracts with customers				
Banks				
Past due by 1 to 30 days	1 874	(144)	1 730	(7.68%)
Past due by 31 to 60 days	4 097	(132)	3 965	(3.22%)
Past due by 61 to 90 days	1 152	(27)	1 125	(2.34%)
Past due by more than 90 days	2 285	(1 273)	1 012	(55.71%)
Independents and Informal retail customers				
Past due by 1 to 30 days	4 869	(91)	4 778	(1.87%)
Past due by 31 to 60 days	724	(27)	697	(3.73%)
Past due by 61 to 90 days	552	(61)	491	(11.05%)
Past due by more than 90 days	237	(237)	–	(100.00%)
Formal market retail customers				
Past due by 1 to 30 days	10 280	(162)	10 118	(1.58%)
Past due by 31 to 60 days	2 626	(96)	2 530	(3.66%)
Past due by 61 to 90 days	790	(64)	726	(8.10%)
Past due by more than 90 days	3 339	(3 339)	–	(100.00%)
Cell C				
Past due by 1 to 30 days	376	(3)	373	(0.80%)
Past due by 31 to 60 days	10	–	10	–
Past due by more than 90 days	12	–	12	–
Other Cellular Networks				
Past due by 1 to 30 days	646	(1)	645	(0.15%)
Past due by 31 to 60 days	512	(6)	506	(1.17%)
Past due by 61 to 90 days	20	–	20	–
Past due by more than 90 days	100	–	100	–
Joint ventures and subsidiaries of Blue Label				
Past due by 1 to 30 days	48 142	(263)	47 879	(0.55%)
	207 443	(6 307)	201 136	

Performance of trade debtors under IAS 39 is assessed to be as follows:

	Gross R'000	Impairment R'000	Net R'000
31 May 2018			
Fully performing	106 419	–	106 419
Past due by one to 30 days	19 028	–	19 028
Past due by 31 to 60 days	9 258	–	9 258
Past due by 61 to 90 days	4 856	–	4 856
Past due by more than 90 days	7 264	(3 059)	4 205
	146 825	(3 059)	143 766
31 May 2017			
Fully performing	80 838	–	80 838
Past due by one to 30 days	9 228	–	9 228
Past due by 31 to 60 days	4 273	–	4 273
Past due by 61 to 90 days	1 559	–	1 559
Past due by more than 90 days	5 845	(1 450)	4 395
	101 743	(1 450)	100 293

Trade receivables

	2019 R'000	2018 R'000	2017 R'000
Provision for impairment of trade receivables			
Balance at the beginning of the year	3 059	1 450	516
Amounts restated through opening retained earnings	59	–	–
Allowances made during the year	4 036	3 159	4 681
Amounts utilised and reversal of unutilised amounts	(847)	(1 550)	(3 747)
At 31 May	6 307	3 059	1 450

Other financial assets

	2019 R'000	2018 R'000	2017 R'000
Provision for impairment			
Balance at the beginning of the year	–	–	–
Amounts restated through opening retained earnings	4 502	–	–
Allowances made during the year	135	–	–
Amounts utilised and reversal of unutilised amounts	–	–	–
At 31 May	4 637	–	–

(ii) Cash and Cash equivalents

The VAS Operations places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

(iii) Loans to joint ventures

The VAS Operations has provided loans to Supa Pesa South Africa Proprietary Limited, a joint venture of the VAS Operations, to satisfy operational and other requirements. This joint venture is located in South Africa. The VAS Operations manages credit risk on this loan by following strict protocols for the approval thereof. Management regularly reviews these loans and uses an internal ratings based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which VAS Operations policy has been aligned.

The loss allowance as at 31 May 2019 for loans to joint ventures is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ Impairment ratio %
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 2	5 765	(115)	5 650	(1.99%)
	5 765	(115)	5 650	

(iv) Loans receivable

The VAS Operations has provided loans to related parties for treasury purposes. The VAS Operations manages credit risk by following strict protocols for the approval and monitoring of these loans. Management regularly reviews these loans and uses an internal ratings based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which VAS Operations policy has been aligned.

The loss allowance as at 31 May 2019 for loans receivable is determined as follows:

	Gross R'000	Impairment R'000	Net R'000	Average ECL/ Impairment ratio %
31 May 2019				
Loans advanced to counterparties without external ratings included in:				
Group 3	206 653	(4 522)	202 131	(2.19%)
	206 653	(4 522)	202 131	

3.2 Liquidity risk

Liquidity risk is the risk that the VAS Operations will not be able to meet its financial obligations as they fall due, both under normal and stressed circumstances.

The VAS Operations' objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities to cover future commitments. Cash flow forecasting is performed in the operating entities of the VAS Operations to ensure sufficient cash to meet operational needs.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to Blue Label's group treasury, The Prepaid Company. For details of the balances at the treasury function please refer to note 8 as well as note 10 for the application of the loan funds subsequent to year-end.

Maturity of financial liabilities

The table below analyses the undiscounted cash flows for the VAS Operations' non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Note reference	Less than one month or on demand R'000	More than one month but not exceeding one year R'000	Payable in: More than one year R'000
2019				
Trade and other payables	3.6.1	142 648	1 118	–
Financial liabilities at fair value through profit and loss	3.6.2	–	158 638	–
Contingent consideration	3.6.1	–	1 923	–
Total		142 648	161 679	–
2018				
Trade and other payables	3.6.1	88 521	32 799	–
Financial liabilities at fair value through profit and loss	3.6.2	–	97 947	–
Contingent consideration	3.6.1	–	1 938	–
Total		88 521	132 684	–
2017				
Trade and other payables	3.6.1	79 644	1 409	–
Contingent consideration	3.6.1	–	6 142	
Total		79 644	7 551	–

Trade and other payables exclude non-financial instruments, being VAT and certain amounts included within accruals and sundry creditors.

3.3 MARKET RISK

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the VAS Operations' income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The VAS Operations' is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The VAS Operations' is not exposed to significant levels of price risk.

(i) Interest Rate Risk

The VAS Operations' cash flow interest rate risk arises from loans receivable and cash and cash equivalents at variable rates. The VAS Operations are not exposed to fair value interest rate risk as the VAS Operations does not have any fixed interest-bearing instruments carried at fair value.

Estimated change to profit or loss as a result of Increase/(decrease) in market interest rates

	2019 R'000	2018 R'000	2017 R'000
An increase or decrease in the market interest rates of 1% (100 basis points) would increase/(decrease) profit before tax by:	1 353	2 312	2 146

The interest rate sensitivity analysis is based on the following assumptions:

Changes in market interest rates affect the interest income or expense of variable interest financial instruments; and

Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

(ii) Foreign currency risk

The VAS Operations is exposed to foreign currency risk from transactions and translations. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The VAS Operations manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels with the use of foreign denominated bank accounts. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations. However, the VAS Operations does not currently make use of hedging instruments.

Foreign currency sensitivity analysis

The VAS Operations has used a sensitivity analysis technique that measures the estimated change to profit or loss, related to its transaction exposure, of an instantaneous 10% strengthening or weakening in the rand against all other currencies, from the rate applicable at 31 May for the respective dates below, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

			(Decrease)/increase in profit before tax	
Net exposure to foreign currencies Denominated: Functional currency	**Net assets/ (liabilities) denominated in foreign currency R'000**	**Change in exchange rate %**	**Weakening in functional currency R'000**	**Strengthening in functional currency R'000**
2019				
USD:ZAR	85	10	9	(9)
EUR:ZAR	9 332	10	933	(933)
	9 417		942	(942)
2018				
USD:ZAR	86	10	9	(9)
EUR:ZAR	6 837	10	684	(684)
	6 923		693	(693)
2017				
USD:ZAR	32	10	3	(3)
EUR:ZAR	2 135	10	214	(214)
	2 167		217	(217)

3.4 CAPITAL ADEQUACY RISK

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

The capital structure of the VAS Operations consists of debt, cash and cash equivalents and equity as disclosed in the financial statements.

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

3.5 FINANCIAL ASSETS

3.5.1 Loans receivable

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. For details related to the ECLs refer to note 3.1.

	2019 R'000	2018 R'000	2017 R'000
Interest-free loans	8 718	7 181	3 042
Interest-free loans receivable from related parties (note 7)	146 855	–	–
Interest-bearing loans receivable from related parties (note 7)	51 080	176 701	119 989
Less: Provision for Impairment (note 3.1 (iv))	(4 522)	–	–
	202 131	183 882	123 031
Less: Amounts included in current portion of loans receivable	(202 131)	(182 413)	(123 031)
	–	1 469	–

All loans receivable are unsecured and repayable on demand or within the next 12 months. Interest-bearing loans bear interest at a range of between 6% and 6.5%. The carrying value of interest-bearing and interest free loans, which include loans to B-BBEE beneficiaries, approximates the fair value. This has been corroborated through discounted cash flow calculations at the effective interest rate the lender would have been able to secure from a financing institution, using an expected payment timeframe.

3.5.2 Trade and other receivables

Trade receivables comprise receivables that are due from customers which arise from transactions for the sale of goods and rendering of services in the ordinary course of business. Trade receivables are primarily accounted for at amortised cost, in accordance with the accounting policies of the VAS Operations. Sundry receivables are accounted for at amortised cost in accordance with the accounting policies of the VAS Operations. For details related to the ECLs refer to note 3.1. Receivables for prepayments and VAT are stated at their nominal values.

The following table provides an analysis of the group's trade and other receivables, including an analysis of trade receivables by originating transaction type as well as by counterparty:

	2019 R'000
Trade receivables arising on revenue from contracts with customers	
Banks	30 684
Independent and Informal retail customers	18 882
Formal market retail customers	40 419
Cell C	21 604
Other Cellular Networks	10 301
Joint ventures and subsidiaries of Blue Label	48 142
Less: Provision for Impairment	(6 307)
Net Trade receivables	163 725
Net Sundry Debtors	12 179
Prepayments	5 396
Airtime advance receivable	33 993
	215 293

	2018 R'000	2017 R'000
Trade receivables – Third parties	100 314	84 933
Trade receivables – Joint ventures and related parties	46 511	16 810
Less: Provision for Impairment	(3 059)	(1 450)
Net Trade receivables	143 766	100 293
Net Sundry Debtors	6 911	7 190
Prepayments	4 066	3 580
Airtime advance receivable	11 169	–
VAT	286	1 048
	166 198	112 111

The carrying value of trade and other receivables approximates the fair value.

3.5.3 Financial assets at fair value through profit and loss

The financial asset at fair value through profit or loss represents shares in Blue Label. These shares were procured in order to fulfil the equity compensation benefits obligations with employees under the forfeitable share plan.

The fair value of the shares is based on the value of the shares on the open market at year-end (Level 1 in terms of the fair value hierarchy). The changes in the fair value of these shares are recorded in 'Other impairments and net fair value gains/losses' in the income statement. Refer to note 5.1 for further detail.

	2019 R'000	2018 R'000	2017 R'000
Financial assets at fair value through profit and loss	3 803	6 645	8 407
	3 803	6 645	8 407

3.5.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held on call with banks.

	2019 R'000	2018 R'000	2017 R'000
Cash at bank	84 134	54 398	94 569
Cash on hand	107	62	4
	84 241	54 460	94 573

3.6 FINANCIAL LIABILITIES

Financial liabilities and equity instruments issued by the VAS Operations are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the VAS Operations after deducting all of its liabilities. Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the VAS Operations.

3.6.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities. The carrying value of trade and other payables approximates the fair value.

	2019 R'000	2018 R'000	2017 R'000
Trade payables	37 206	38 961	51 761
Accruals (primarily network and airtime commission)	85 459	53 533	27 087
Employee benefits	9 394	9 418	5 097
Sundry creditors	1 519	12 023	306
Contract liabilities	1 763	505	1 517
Contingent consideration*	1 923	1 938	5 586
VAT	3 721	3 220	2 183
Payables to related parties (refer to note 7)	18 790	16 705	201
	159 775	136 303	93 738
Less: Amounts included in current portion of trade and other payables	159 775	136 303	93 738
	–	–	–

**The contingent purchase consideration is the amount provided for the purchase of the investment in Supa Pesa Africa Limited. This amount consists of provisions for future warranty payments that will be made if the Supa Pesa Africa Limited reach specific profit targets. Refer to note 2.3 for further details related to the contingent purchase consideration.*

3.6.2 Financial liabilities at fair value through profit and loss

Put option liability

Put option liabilities represent contracts that impose an obligation on Blue Label to purchase the shares of a subsidiary for cash or another financial asset. Put option liabilities are initially raised from the transaction with non-controlling interest reserve in equity at the present value of the expected redemption amount payable. Subsequent revisions to the expected redemption amount payable as well as the unwinding of the discount related to the measurement of the present value of the put option liability, are recognised in the income statement. Where a put option liability expires unexercised or is cancelled, the carrying value of the financial liability is released to the transaction with non-controlling interest reserve in equity. The VAS Operations recognises the non-controlling interest over which a put option exists at acquisition date. Put option liabilities are presented within trade and other payables in the VAS Operations statement of financial position. The put option liabilities are level 3 instruments in the fair value hierarchy.

Changes in level 3 instruments are as follows:

	2019 R'000	2018 R'000	2017 R'000
Opening balance	97 947	–	–
Acquisition of Airvantage SA	–	93 966	–
Acquisition of AV Technology	62 684	–	–
Remeasurements recognised in impairments and net fair value gains/losses	(16 818)	–	–
Remeasurements recognised in finance cost	14 825	3 981	–
Closing balance	158 638	97 947	–

This relates to a put option that Blue Label has against it on the remaining 40% shareholding in Airvantage SA and AV Technology. This is exercisable within the next 12 months. Blue Label will settle this from available cash resources. The option is valued based on the audited net profit after tax for 12 months ending 28 February 2019 at a six multiple.

4. NON-FINANCIAL INSTRUMENTS

Non-financial instruments comprise:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Inventories

Impairment of non-financial assets (excluding inventory)

The VAS Operations evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised in profit or loss when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in profit or loss in the same line item as the original impairment charge.

4.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the VAS Operations' share of the net identifiable assets of the acquired subsidiary or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the VAS Operations expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of joint ventures is included in "investments in and loans to joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Critical accounting estimates and assumptions

Assessment of goodwill for impairment

The VAS Operations tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

	2019 R'000	2018 R'000	2017 R'000
Year ended 31 May			
Opening carrying amount	266 963	214 256	214 256
Acquisition of subsidiary	49 298	52 707	–
Impairment of goodwill	(74 003)	–	–
FCTR on goodwill	5 755	–	–
Closing carrying amount	248 013	266 963	214 256
At 31 May			
Cost	322 016	266 963	214 256
Accumulated impairments	(74 003)	–	–
Carrying amount	248 013	266 963	214 256

The carrying amount of goodwill and intangible assets was reduced to their recoverable amounts through recognition of an impairment loss of R74 million (2018: nil, 2017: nil).

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The cash-generating units to which goodwill is allocated are presented below:

	2019 R'000	2018 R'000	2017 R'000
Airvantage SA	52 707	52 707	–
AV Technology	55 053	–	–
Cellfind	21 406	21 406	21 406
Panacea	6 883	6 883	6 883
ViaMedia	111 964	185 967	185 967
	248 013	266 963	214 256

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2019		2018		2017	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
Airvantage SA	4.0	35.9	4.0	18.7	–	–
AV Technology	2.5	17.9	–	–	–	–
Cellfind	4.2	23.3	4.0	20.5	4.0	17.8
Panacea	4.2	22.9	4.0	20.0	4.0	24.1
ViaMedia	4.2	29.0	4.0	19.2	4.0	20.1

The discount rates used are pre-tax and reflect specific risks relating to the relevant companies. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the cash-generating units operate. The discount rates used for the prior year were adjusted to reflect Blue Label's target debt equity ratio. This did not give rise to any impairments in the prior period.

For all goodwill balances, except the goodwill balances mentioned below, if one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no impairments that would have to be recognised.

The discount rate used when calculating the value-in-use calculations would need to be increased by the following amounts before any impairments would need to be recognised:

	Increase in discount rate %	Decrease in terminal growth rate %	Excess over carrying value R'000
Airvantage Proprietary Limited	0.2	0.7	1 199
AV Technology Limited	0.3	0.5	2 015

ViaMedia impairment

ViaMedia's performance has been negatively impacted as a result of a sector-wide decline in the B2C (direct to consumer) WASP industry. Previously this was significantly offset by growth in its Enterprise division. However, over the past six months, the latter division has flat-lined, which together with the continued decline in the B2C channel, has caused a negative impact on operating profits with marginal growth expectations going forward.

Consequently, the decline in the value-in-use of the company has resulted in an impairment to goodwill of R74 million.

4.2 Intangible assets

(a) Distribution agreements and customer relationships

Distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – Business Combinations, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (3 to 15 years).

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (3 to 15 years).

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (3 to 5 years).

Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

(c) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

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

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised internally generated software development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

	Distribution agreement R'000	Customer relationships R'000	Computer software R'000	Internally generated software development R'000	Total R'000
Year ended 31 May 2019					
Opening carrying amount	252 716	–	31 342	13 463	297 521
Additions	–	–	1 554	8 949	10 503
Acquisition of subsidiaries (note 2.1)	–	77 619	440	–	78 059
Disposals	–	–	–	(110)	(110)
Amortisation charge	(29 490)	(13 983)	(6 807)	(4 562)	(54 842)
Translation difference	–	8 597	45	–	8 642
Closing carrying amount	223 226	72 233	26 574	17 740	339 773
At 31 May 2019					
Cost	282 974	147 439	40 407	29 579	500 399
Accumulated amortisation and impairments	(59 748)	(75 206)	(13 833)	(11 839)	(160 626)
Closing carrying amount	223 226	72 233	26 574	17 740	339 773
Year ended 31 May 2018				–	
Opening carrying amount	93 828	–	10 978	7 503	112 309
Additions	–	–	4 572	2 182	6 754
Acquisition of subsidiaries (note 2.1)	174 784	–	19 935	7 491	202 210
Amortisation charge	(15 896)	–	(3 806)	(3 713)	(23 415)
Impairments	–	–	(338)	–	(338)
Closing carrying amount	252 716	–	31 342	13 463	297 520
At 31 May 2018					
Cost	282 975	59 503	42 498	25 675	410 651
Accumulated amortisation and impairments	(30 259)	(59 503)	(11 156)	(12 212)	(113 129)
Closing carrying amount	252 716	–	31 342	13 463	297 521
Year ended 31 May 2017					
Opening carrying amount	100 092	–	10 104	8 955	119 151
Additions	–	–	2 590	2 391	4 981
Amortisation charge	(6 264)	–	(1 716)	(3 843)	(11 823)
Closing carrying amount	93 828	–	10 978	7 503	112 309
At 31 May 2017					
Cost	108 190	59 503	17 990	16 002	201 685
Accumulated amortisation and impairments	(14 362)	(59 503)	(7 012)	(8 499)	(89 376)
Carrying amount	93 828	–	10 978	7 503	112 309

4.3 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the VAS Operations and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Computer equipment	25% – 33.3%
Furniture, fittings and office equipment	16.67% – 25%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives, ranging between 3 to 5 years.

	Computer equipment R'000	Furniture, fittings and office equipment R'000	Leasehold improve-ments R'000	Total R'000
Year ended 31 May 2019				
Opening carrying amount	6 071	765	1 759	8 595
Additions	3 260	138	–	3 398
Disposals	(479)	(32)	–	(511)
Depreciation charge	(2 839)	(309)	(394)	(3 542)
Translation difference	3	(1)	–	2
Closing carrying amount	6 016	561	1 365	7 942
At 31 May 2019				
Cost	15 301	1 356	2 074	18 731
Accumulated amortisation and impairments	(9 285)	(795)	(709)	(10 789)
Carrying amount	6 016	561	1 365	7 942
Year ended 31 May 2018				
Opening carrying amount	5 505	624	153	6 282
Additions	2 321	356	1 834	4 511
Acquisition of subsidiaries	948	57		1 005
Disposals	(37)	–		(37)
Depreciation charge	(2 666)	(272)	(228)	(3 166)
Closing carrying amount	6 071	765	1 759	8 595
At 31 May 2018				
Cost	13 762	1 860	2 074	17 696
Accumulated amortisation and impairments	(7 691)	(1 095)	(315)	(9 101)
Carrying amount	6 071	765	1 759	8 595
Year ended 31 May 2017				
Opening carrying amount	3 433	810	158	4 401
Additions	4 209	149	136	4 494
Disposals	(27)	(80)	(5)	(112)
Depreciation charge	(2 110)	(255)	(136)	(2 501)
Closing carrying amount	5 505	624	153	6 282
At 31 May 2017				
Cost	10 859	1 446	238	12 543
Accumulated amortisation and impairments	(5 354)	(822)	(85)	(6 261)
Carrying amount	5 505	624	153	6 282

There are no property, plant and equipment assets that are encumbered.

4.4 Inventories

Inventories comprise prepaid airtime (including physical prepaid airtime), handsets and other related products.

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale. There were no write-downs for any of the periods disclosed.

	2019 R'000	2018 R'000	2017 R'000
Finished goods			
Merchandise	153	138	254
	153	138	254

5. EMPLOYEES

5.1 Employee compensation and benefit expense

	2019 R'000	2018 R'000	2017 R'000
Salaries and wages	58 519	58 298	56 785
Bonuses	5 714	7 357	3 379
Equity compensation benefit (note 5.2)	(1 416)	1 668	3 053
Other	453	1 873	392
	63 270	69 196	63 609

Average number of employees for the year was 117 (2018: 108, 2017: 110).

The VAS Operations recognises a liability and an expense for bonuses. A liability is recognised where the VAS Operations is contractually obliged or where there is a past practice that has created a constructive obligation.

The bonus expense is determined based on overall VAS Operations performance and other non-financial measures.

In terms of the VAS Operations remuneration policy senior Management may earn up to 50% of their annualised fixed salary package.

5.2 Equity compensation benefit

Forfeitable holding company shares

Blue Label operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of Blue Label. The awards are accounted for as cash settled within the subsidiary financial statements, including the VAS Operations. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the income statement.

During the year, forfeitable shares were granted to directors and qualifying employees. The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance condition has not been met, unless otherwise specified by the rules or determined by the board. In the event that the participant is not in the employ of the group, or the performance conditions are not met, then the shares allocated to the participant will be forfeited and will be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer or retained by the company for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. No dividend was declared on 21 August 2018. (A dividend of 40 cents per ordinary share was declared on 23 August 2017).

The performance condition of the forfeitable shares for the eighth award vesting on 31 August 2018 is as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of your allocation you are required to be employed within the group at the vesting date;
- 60% of the awards are allocated on the basis of 50% for Growth in Core Headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over 3 years, then 20% of the 50% will vest.
- If growth is 10% above CPI over 3 years, then an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over 3 years, then a further 30% (i.e. a total of 100%) of the 50% will vest.

The 50% for growth in core headlines earnings is based on the core headline earnings at subsidiary level with regards to qualifying employees.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three year period.

The performance condition for Executive Directors for the ninth, tenth and eleventh award grant vesting on 31 August 2019, 31 August 2020 and 31 August 2021 respectively are as follows:
- 33.33% for retention (three years from date of award).
- 66.67% financial (33.34% for growth in core headline earnings per share and 33.33% based on shareholder returns).

The 33.34% for growth in core headline earnings per share is based on the following achievements:
- If growth is 5% above CPI compounded annually over three years, then 20% of the 33.33% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 33.33% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 33.33% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 33.33% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

The performance condition for senior managers for the ninth, tenth and eleventh award grant vesting on 31 August 2019, 31 August 2020 and 31 August 2021 respectively are as follows:
- 40% for retention (three years from date of award).
- 60% financial (30% for growth in core headline earnings per share and 30% based on shareholder returns).

The 30% for growth in core headline earnings per share is based on the following achievements:
- If growth is 5% above CPI compounded annually over three years, then 20% of the 30% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 30% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 30% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 30% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

The performance criteria for senior managers is measured at subsidiary level.

Critical accounting estimates and assumptions

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	**Vesting date**	**Number of shares**
At beginning of the year			563 138
Eighth award	1 September 2015	31 August 2018	267 802
Ninth award	18 October 2016	31 August 2019	130 116
Tenth award	1 September 2017	31 August 2020	165 220
Granted during the year			
Eleventh award	1 September 2018	31 August 2021	710 667
Shares forfeited during the year			(26 780)
Eighth award			(26 780)
Ninth award			–
Tenth award			–
Shares vested during the year			
Eighth award		31 August 2018	(241 021)
At end of year			1 006 003
Ninth award			130 116
Tenth award			165 220
Eleventh award			710 667

Refer to note 5.1 for the expense recognised in the income statement relating to the equity compensation benefits.

The fair value of the cash-settled awards is based on the open market closing price at grant date and is remeasured to the open market closing price at period-end.

	2019 R'000	2018 R'000	2017 R'000
Non-current liabilities at amortised cost	852	3 774	3 069
Current liabilities at amortised cost	268	487	1 666

6. TAXATION

6.1 Income tax expense

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the VAS Operations and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the VAS Operations at the level of the individual uncertainty or group of related uncertainties.

Critical accounting estimates and assumptions

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable income is estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

	2019 R'000	2018 R'000	2017 R'000
Current tax	35 661	26 765	17 613
Current year	35 166	26 765	17 613
Adjustment in respect of prior years	495	–	–
Deferred tax	(8 178)	(1 648)	3 790
Current year	(9 609)	(1 648)	3 790
Adjustment in respect of prior years	1 431	–	–
	27 483	25 117	21 403
Profit before tax	824	73 926	81 946
Tax at 28%	231	20 699	22 945
Other income not subject to tax	(6 459)	(785)	(1 754)
Other expenses not deductible for tax purposes	6 088	1 644	835
Impairment of goodwill	20 721	–	–
Impairment of investment in joint ventures (refer to note 2.3)	10 553	–	–
Tax effect of assessed losses not recognised	126	3 449	–
Share of losses/(profits) from joint ventures (refer to note 2.3)	465	110	(623)
Adjustment in respect of prior years	1 926	–	–
Effect of different tax dispensations	(7 280)	–	–
Withholding tax	1 112	–	–
Tax charge	27 483	25 117	21 403
Effective tax rate (%)	3 335	34	26

6.2 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Critical accounting estimates and assumptions

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the VAS Operations and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Capital allowances R'000	Fair value allocation exercise and fair value gains R'000	Provisions R'000	Tax losses R'000	Pre-payments R'000	Unrealised forex R'000	Other R'000	Total R'000
At 31 May 2016	(814)	16 196	(524)	(3 075)	1 678	–	431	13 892
Charged/(credited) to the income statement	7 938	(1 244)	(385)	1 407	(803)	–	(3 122)	3 791
At 31 May 2017	7 124	14 952	(909)	(1 668)	875	–	(2 691)	17 683
Charged/(credited) to the income statement	12	(4 226)	(1 061)	622	193	60	2 754	(1 646)
Acquisition of subsidiaries (refer to note 2.1)	1 054	53 980	(93)	–	–	–	–	54 941
At 31 May 2018	8 190	64 706	(2 063)	(1 046)	1 068	60	63	70 978
Adjustment on the initial application of IFRS 9	–	–	(96)	(3)	–	–	–	(99)
Charged/(credited) to the income statement	3 978	(12 193)	(528)	741	(303)	231	(103)	(8 177)
Acquisition of subsidiaries (refer to note 2.1)	–	21 733	–	–	–	–	–	21 733
Foreign currency translation reserve	–	2 407	–	–	–	–	–	2 407
At 31 May 2019	12 168	76 653	(2 687)	(308)	765	291	(40)	86 842

	2019 R'000	2018 R'000	2017 R'000
Deferred tax asset comprises:			
Fair value allocation exercise and fair value gains	–	(116)	–
Provisions	(2 612)	(2 060)	(939)
Tax losses	(303)	(1 045)	(1 667)
Other	(824)	(631)	(3 162)
Total deferred tax asset	(3 739)	(3 852)	(5 768)
Deferred tax liability comprises:			
Capital allowances	12 092	8 190	7 124
Purchase price allocations and fair value gains	76 652	64 821	14 952
Prepayments	763	1 066	873
Unrealised foreign exchange differences	290	60	–
Other	784	693	502
Total deferred tax liability	90 581	74 830	23 451
Net deferred tax liability	86 842	70 978	17 683
The analysis of deferred tax assets and deferred tax liabilities is as follows:			
Deferred tax assets			
Deferred tax assets to be recovered after more than 12 months	–	(4)	(4)
Deferred tax assets to be recovered within 12 months	(458)	(1 057)	(2 020)
Total deferred tax asset	(458)	(1 061)	(2 024)
Deferred tax liabilities			
Deferred tax liabilities to be recovered after more than 12 months	53 437	47 859	14 958
Deferred tax liabilities to be recovered within 12 months	33 863	24 180	4 749
Total deferred tax liability	87 300	72 039	19 707
Net deferred tax liability	86 842	70 978	17 683

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The VAS Operations did not recognise deferred income tax assets of R126 thousand (2018: R3.4 million) in respect of losses amounting to R523 thousand (2018: R12.3 million) that can be carried forward against future taxable income.

7. RELATED PARTIES

Transactions and balances with related parties:

	2019 R'000	2018 R'000	2017 R'000	2019 R'000	2018 R'000	2017 R'000
	Sales to related parties			**Purchases from related parties**		
Blue Label Connect Proprietary Limited	2 862	4 110	5 563	–	–	–
Blue Label Data Solutions Proprietary Limited	1 222	1 085	1 041	10	70	14
Blue Label Distribution Proprietary Limited	239	553	277	3 813	4 002	1 373
Blue Label One Proprietary Limited	52	36	142	327	53	36
Cigicell Proprietary Limited	187	243	423	–	–	–
The Prepaid Company Proprietary Limited	597	826	606	2 265	4 923	3 072
Cell C Limited	12 066	6 056	–	44 804	54 490	–
	17 225	12 909	8 052	51 219	63 538	4 495
	Other income received from related parties			**Other expenses paid to related parties**		
Interest received from related parties						
Blue Label Data Solutions Proprietary Limited	–	70	–	–	–	–
The Prepaid Company Proprietary Limited	2 713	8 769	6 864	–	–	–
Supa Pesa South Africa Proprietary Limited	662	739	790	–	–	–
Management fees paid to/received from related parties	–	–	–	–	–	–
Blue Label Company Proprietary Limited	–	–		5 723	–	–
Blue Label Data Solutions Proprietary Limited	–	–		256	240	40
Transaction Junction	486	–	–	–	–	–
Blue Label Telecoms Limited	–	–	–	–	5 202	4 685
Purchases of property, plant and equipment from related parties	–	–	–	–	–	–
The Prepaid Company Proprietary Limited	–	–	–	12	–	–
	3 861	9 578	7 654	5 991	5 442	4 725
	Loans to related parties			**Loans from related parties**		
The Prepaid Company Proprietary Limited	197 935	176 701	119 989	–	–	–
	197 935	176 701	119 989	–	–	–
	Amounts due from related parties included in trade receivables			**Amounts due to related parties included in trade payables**		
Blue Label Connect Proprietary Limited	452	447	1 116	–	–	–
Blue Label Data Solutions Proprietary Limited	9 514	7 028	13 412	1 375	51	76
Blue Label Distribution Proprietary Limited	154	1 181	304	17	54	72
Cigicell Proprietary Limited	86	91	1 901	–	–	–
The Prepaid Company Proprietary Limited	37 236	19 367	68	13 941	7 552	48
TicketPros Proprietary Limited	4	4	9	–	–	–
Transaction Junction Proprietary Limited	84	–	–	5	5	5
Glocell Proprietary Limited	612	–	–	–	–	–
Cell C Limited	21 604	18 393	–	3 452	9 043	–
	69 746	46 511	16 810	18 790	16 705	201

8. UNRECOGNISED ITEMS

8.1 Commitments

Future operating lease commitments

The VAS Operations leases various offices under non-cancellable operating lease agreements.

The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The VAS Operations is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 1.3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019 R'000	2018 R'000	2017 R'000
Premises			
Payable within one year	2 392	2 553	990
Payable in two to five years	4 105	5 753	–
	6 497	8 306	990

9. B-BBEE TRANSACTION AND PREFERENCE SHARES

During the 2018 financial year, Bitsana Investments (Pty) Ltd (Bitsana) was created pursuant to a BEE deal to acquire 49% shareholding in Panacea and 49.6% in Simigenix. Bitsana is 100% held by a black female and is a third party to VAS Operations as well as Blue Label. Prior to the introduction of Bitsana, Panacea and Simigenix declared dividends to the net asset value of the respective company to its parent, Blue Label, which will be repayable through the subscription by Blue Label of non-cumulative preference shares in Panacea and Simigenix. The principal amount of the preference share and the preference dividends are repayable at the discretion of the Panacea and Simigenix board of directors respectively and are therefore classified as equity.

Following the dividend declaration to Blue Label and the subscription for non-cumulative preference shares, Bitsana subscribed for a 49% shareholding in Panacea and 49.6% shareholding in Simigenix for nominal value on 2 October 2017. Prior to full and final redemption of the preference shares, and subject to the approval of the Panacea and Simigenix boards respectively, Blue Label shall be entitled to an annual preference dividend in advance of any dividend paid to any ordinary shareholder. As such the interest held by the Bitsana has been accounted for as in-substance options. The difference between the identifiable consideration received from Bitsana and the fair value of the options (calculated using an option pricing model) was recognised as an expense in the financial statements of Panacea and Simigenix. The options have been classified as equity-settled awards as Bitsana will ultimately receive Panacea and Simigenix shares.

The option pricing model used the following assumptions:

	Panacea:	Simigenix:
Grant date	30 Sep 2017	30 Sep 2017
Maturity date[1]	Matures upon full redemption	Matures upon full redemption
Fair value on grant date	R24,560,000	R8,796,000
Share-based payment expense	R999,000	R400,000
Volatility[2]	30%	30%
Prime interest rate	Forecast prime curve using a zero coupon swap curve	Forecast prime curve using a zero coupon swap curve
Risk-free rate[3]	Zero coupon swap curve	Zero coupon swap curve
Term to maturity[1]	10 Years	10 Years

Notes:

1. *The maturity date and Term to Maturity will depend on when the preference shares have been repaid in full.*
2. *The volatility assumption of 30% was calculated, taking into account the higher variability expected in annual movements in the unlisted company values compared to that expected for the movements in the share price of the listed parent company, BLT.*
3. *Risk-free interest rates were determined from a bootstrapped zero coupon perfect fit swap curve. The swap curve was independently sourced from the Bond Exchange of South Africa, a subsidiary of JSE Limited.*

As at 31 May 2019 24,560,000 (2018: 24,560,000) non-cumulative preference shares with a face value of R24,560,000 (2018: R24,560,000) were outstanding for Panacea and 8,796,000 (2018: 8,796,000) non-cumulative preference shares with a face value of R8,796,000 (2018: R8,796,000) were outstanding for Simigenix.

The preference shares have the following rights and obligations:

- At the option of the Panacea and Simigenix boards respectively, a preferential dividend may be payable annually in arrears on the anniversary of the grant date, in a sum equal to a coupon rate on the capital face value of the preference shares, calculated for the prior period (or part thereof) compounded monthly in arrears and accruing at Investec Bank Limited's prime rate, less 1%; and
- The preference shares shall be redeemable only at the option of the Panacea and Simigenix board of directors respectively.

10. SUBSEQUENT EVENTS

Blue Label Mobile restructure and disposal

On 3 June 2019, Blue Label restructured its holdings in Cellfind, ViaMedia and its joint ventures, Airvantage SA and its subsidiary and AV Technology. Prior to the restructure, Blue Label owned 100% of Cellfind, 75% of ViaMedia, 60% of Airvantage SA and 60% of AV Technology. The aforementioned entities declared dividends on 3 June amounting to R222.2 million, R87.6 million, R48.3 million and R11.3 million respectively. At the date of signing these special purpose combined carve-out historical financials, Blue Label was still owed R15.4 million by Cellfind, R44.6 million by ViaMedia and R7.7 million from Airvantage SA. Malik Investments Holdings Proprietary Limited (Malik), a non-Group company, owned 25% of ViaMedia. In terms of the restructure, Blue Label exchanged its shares in Cellfind, ViaMedia, Airvantage SA and AV Technology for 89.51% of the shares in a new entity called Blue Label Mobile. Malik thereafter exchanged its 25% shareholding in ViaMedia for 10.49% in Blue Label Mobile. Following this, Malik subscribed for a further 4.51% in Blue Label Mobile for R34 million, increasing its shareholding in Blue Label Mobile to 15% with Blue Label owning the remaining 85%. Blue Label retains all of the existing rights and obligations with respect to the remaining put and/or call options on 40% of the shares in Airvantage SA and its subsidiary and AV Technology (refer to note 3.6.1).

Subsequent to the restructure, Blue Label assigned its rights and obligations to acquire 50% of Hyve Mobile Proprietary Limited and Mobile Content Africa Limited (Hyve) to Blue Label Mobile. The first tranche of payment due to the shareholders of Hyve was for R80 million, of which R57 million plus an escalation amount of R1.6 million has been paid. On payment of the balance of R23 million, Blue Label Mobile's 50% holding in Hyve will become effective. Thereafter, three additional tranches totalling an estimated R90.4 million will be payable over a three-year period based on performance targets. Blue Label Mobile has a call option to acquire a further 25% of Hyve, exercisable up until 30 September 2021, for an estimated purchase consideration of R85.2 million. Based on their unaudited financial statements for the year ended 31 March 2019, 50% of Hyve's NAV and EBITDA equates to R21.1 million and R25.2 million respectively.

Post-year-end, Blue Label entered into an agreement to dispose of its 85% shareholding in Blue Label Mobile as well as its 51% shareholdings in Simigenix and Panacea, to DNI 4PL Contracts Proprietary Limited (DNI), for a purchase consideration of R450 million, inclusive of loan claims, plus the amounts which Blue Label Mobile has disbursed towards the acquisition of 50% of Hyve as at the transaction closing date. The purchase price will be as follows:

- R350 million plus the amounts Blue Label have disbursed for the acquisition of 50% of Hyve as at the transaction closing date; and
- R100 million, escalated at prime overdraft rates plus 2% per annum compounded on a monthly basis, deferred until the solvency and liquidity status of Cell C is proven.

The above proceeds received will be applied to reduce interest-bearing debt.

Post-disposal of Blue Label Mobile, Blue Label will continue to assume the obligation with respect to the put and/or call options on 40% of the shares in Airvantage SA and AV Technology, until such time as the liquidity and solvency status of Cell C is proven. At that stage the obligation in respect of the put and/or call options will revert back to Blue Label Mobile. The put and/or call options cannot be exercised prior to the finalisation of the 31 May 2020 financial results of both entities.

Should Blue Label be obligated to meet the commitment relating to the put option, and the liquidity and solvency is never proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be forfeited by Blue Label, but in lieu thereof, Blue Label Mobile will transfer an additional 24% of the issued share capital of Airvantage SA and AV Technologies to Blue Label, resulting in Blue Label ownership of these entities amounting to 64%.

Should Blue Label be obligated to meet the commitment relating to the put option, and the liquidity and solvency of Cell C is proven thereafter, then the R100 million deferred purchase price and the interest accrued thereon will be payable to Blue Label plus the cost of the 40% put option shares that will be transferred to Blue Label.

11. ACCOUNTING POLICIES

11.1 Standards, amendments and interpretations not yet effective

At the date of authorisation of this Combined Carve-Out Historical Financial Information, the following relevant standards, amendments, and interpretations to existing standards were in issue but not yet effective. These will apply to the VAS Operations accounting periods beginning on 1 June 2019 or later periods and have not been elected to be early adopted by the VAS Operations.

The salient features of those standards, amendments, and interpretations have been described below.

Standard	Description of change	Management actions and assessed impact	Effective date – accounting periods beginning on or after
IFRS 16 – Leases	This IFRS sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor); – IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations; – IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. The lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. No significant changes have been included for lessors.	The VAS Operations has assessed the estimated impact that the initial application of IFRS 16 will have on its VAS Operations income statement, VAS Operations statement of financial position and VAS Operations statement of cash flows once adopted on 1 June 2019. In preparation for the adoption of IFRS 16 the following actions have been undertaken: – Management have provided formal training programmes relating to IFRS 16 to all employees involved in the supervision of the finance function. – As part of the training programme, a workshop session was held to identify business units where IFRS 16 may have an impact. – Assessment questionnaires were completed for each business unit to identify leasing arrangements of significance to the VAS Operations. – The results of the work undertaken thus far have indicated that the VAS Operations is not a lessee of significance across the majority of its operations, key leasing arrangements identified thus far include: **Leases of office space** The VAS Operations leases office space to accommodate the VAS Operations' employees and operations, these leases are generally of a longer term (3 – 5 years). Dependent on the VAS Operations' business plan, or to address the need when it arises, the VAS Operations does also lease properties for shorter or longer timeframes. Based on the leases identified thus far, the VAS Operations currently has approximately 8 existing commitments with external parties to the VAS Operations in relation to these leasing arrangements, with an indicative average remaining term of 36 months. The indicative remaining lease commitment for future minimum lease payments for these leases is approximately R6.3 million.	1 January 2019

Standard	Description of change	Management actions and assessed impact	Effective date – accounting periods beginning on or after
		The VAS Operations does not engage in significant leasing activities as a lessor.	
		– The VAS Operations is continuing to assess the impact of the accounting changes that will arise under IFRS 16 and cannot yet reasonably quantify the impact. – The VAS Operations plans to apply IFRS 16 initially on 1 June 2019, using the modified retrospective approach applying the practical expedients of IFRS 16. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 June 2019, with no restatement of comparative information; – The VAS Operations will elect to recognise the right-of-use assets at an amount equal to the lease liability at 1 June 2019	

The following standards/amendments/interpretations are not anticipated to have a material impact on the VAS Operations, and are effective for annual periods beginning on 1 January 2019:

Standard(s) Amendment(s) Interpretation(s)	Description of change	Effective date – Accounting periods beginning on or after
Annual improvements 2015 – 2017 cycle	The annual improvements project is a collection of amendments to various IFRS standards and is the result of conclusions reached by the IASB on proposals made at its annual improvement project; and the interpretation will not have a material impact on the VAS Operations.	1 January 2019
New Interpretation – IFRIC 23 Uncertainty over Income Tax Treatments	– This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities; – IFRIC 23 specifically clarifies how to incorporate this uncertainty into the measurement of tax as reported in the consolidated financial statements; – IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected; and – The interpretation will not have a material impact on the VAS Operations.	1 January 2019

Amendments to IFRS 3 Business Combinations	These amendments make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments: – Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs; – Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and – Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments will not have a material impact on the VAS Operations.	1 January 2020
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework; – The revised definition of material is: – Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. – The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and – The amendments will not have a material impact on the VAS Operations.	1 January 2020

11.2 Other accounting policies

Foreign currencies

(a) **Functional and presentation currency**

Items included in the financial statements of each of the VAS Operations' entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The VAS Operations financial statements are presented in South African rand (ZAR), which is the functional and presentation currency of the parent company.

(b) **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in operating profit.

(c) **Group companies**

The results and financial position of all the VAS Operations entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as at statement of financial position date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Dividend tax

Dividend tax is provided for at 20% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Dividend distribution

Dividend distribution to the VAS Operations' shareholders is recognised as a liability in the VAS Operations' financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

11.3. Change in accounting policy

11.3.1 IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces both IAS 11 and IAS 18 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a comprehensive framework for recognition of revenue from contracts with customers. Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires a certain level of judgement. In considering the impact of IFRS 15 management of the VAS Operations determined that there was no change in accounting when compared to the prior standards.

11.3.2 IFRS 9 'Financial Instruments'

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement of financial assets

The adoption of IFRS 9 has not had a material impact on the VAS Operations' accounting policies related to the classification and measurement of financial assets, financial liabilities and derivative financial instruments. The following table demonstrates the measurement category of financial instruments under IAS 39 and IFRS 9:

	IAS 39	**IFRS 9**
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Loans to joint ventures	Loans and receivables	Amortised cost
Loans receivable	Loans and receivables	Amortised cost
Financial assets at fair value through profit and loss	Fair value through profit or loss	Fair value through profit or loss
Trade and other payables	Amortised cost	Amortised cost
Financial liabilities at fair value through profit and loss	Fair value through profit or loss	Fair value through profit or loss
Contingent consideration	Amortised cost	Amortised cost

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The VAS Operations has three types of financial assets that are subject to the new ECL model:
- trade receivables
- loans receivable and loans to joint ventures, and
- cash and cash equivalents (immaterial impairment loss identified)

The VAS Operations was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the group's retained earnings is disclosed below.

Trade receivables

The VAS Operations applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period.

Loans receivable, loans to joint ventures

The VAS Operations applies the IFRS 9 general approach to measuring expected credit losses which uses a 12-month expected loss allowance for all loans receivables and loans to joint ventures individually. ECLs are calculated by applying a loss ratio to the balance of each loan at each reporting date. The loss ratio for loans is calculated according to the ageing/payment profile of loans by applying historic write-offs to the payment profile of the loan population. The historic loss ratio is then adjusted for forward looking information to determine the ECL for each loan at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. To calculate an ECL, management allocates a risk rating to each loan. The risk rating is assigned an average cumulative default rate, based on management assessing market related default rates for emerging markets. This rate is added to the historical loss ratio to determine the ECL of the relevant loan.

Critical accounting judgements and assumptions

The ECL for financial assets is based on assumptions about risk of default and expected loss rates. The VAS Operations uses judgement in making these assumptions and selecting the input to the impairment calculation, based on the VAS Operations' past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

IFRS 9 transition

The VAS Operations has applied IFRS 9 using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance of equity at 1 June 2018. Therefore the comparative information on the reviewed VAS operations statement of financial position and reviewed VAS Operations statement of comprehensive income has not been restated for the adoption of these new standards and continues to be reported under the previously applied standards.

In accordance with the requirements of applying the modified retrospective approach under IFRS 9, the VAS Operations statement of financial position as at 31 May 2018 has been presented below with the changes in the carrying amounts on 1 June 2018 arising from the change in measurement attribute on transition to IFRS 9.

VAS Operations statement of financial position

	1 June 2018 R'000	IFRS 9 adjustments R'000	31 May 2018 R'000
Assets			
Non-current assets	614 947	(185)	615 132
Property, plant and equipment	8 595	–	8 595
Intangible assets	297 520	–	297 520
Goodwill	266 963	–	266 963
Investments in and loans to joint ventures	39 438	(86)	39 524
Loans receivable	1 469	–	1 469
Deferred taxation assets	962	(99)	1 061
Current assets	421 429	(4 475)	425 904
Loans to joint ventures	6 265	–	6 265
Inventories	138	–	138
Loans receivable	177 997	(4 416)	182 413
Trade and other receivables	166 139	(59)	166 198
Financial asset at fair value through profit and loss	6 645	–	6 645
Current tax assets	9 785	–	9 785
Cash and cash equivalents	54 460	–	54 460
Total assets	1 036 376	(4 660)	1 041 036
Equity and liabilities			
Capital and reserves	716 269	(4 660)	720 929
Other reserves	1 999	–	1 999
Contributions from parent	609 226	(4 269)	613 495
Non-controlling interest	105 044	(391)	105 435
Non-current liabilities	75 813	–	75 813
Deferred taxation liabilities	72 039	–	72 039
Equity compensation liability	3 774	–	3 774
Current liabilities	244 294	–	244 294
Trade and other payables	136 303	–	136 303
Financial guarantee contracts	487	–	487
Financial liabilities at fair value through profit and loss	97 947	–	97 947
Current tax liabilities	9 557	–	9 557
Total equity and liabilities	1 036 376	(4 660)	1 041 036

INDEPENDENT REPORTING ACCOUNTANTS' AUDIT REPORT ON THE SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF THE VAS OPERATIONS FOR THE FINANCIAL YEAR ENDED 31 MAY 2019

To the directors of Blue Label Telecoms Limited

Our opinion

Blue Label Telecoms Limited is issuing a circular to its shareholders (the Circular) regarding its proposed sale of Blue Label Mobile Holdings Proprietary Limited and its subsidiaries ViaMedia (Pty) Ltd, Cellfind (Pty) Ltd, Airvantage Proprietary Limited (Airvantage SA), AV Technology Limited (AV Technology), Simigenix (Pty) Ltd and Panacea Mobile (Pty) Ltd (collectively the VAS Operations) and 3G Mobile (Pty) Ltd and its subsidiaries excluding Comm Equipment Company (Pty) Ltd (collectively 3G Distribution) (the Proposed Transaction).

In our opinion, the special purpose combined carve-out historical financial information of the VAS Operations for the year ended 31 May 2019 as set out in Annexure 1 of the Circular presents fairly, in all material respects, the combined financial position of the VAS Operations as at 31 May 2019, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards and the JSE Limited Listings Requirements.

What we have audited

At your request and solely for the purpose of the Circular to be dated on or about 6 November 2019, we have audited the VAS Operation's special purpose combined carve-out historical financial information, which comprises:

- the combined statement of financial position as at 31 May 2019;
- the combined statement of comprehensive income for the year then ended;
- the combined statement of changes in equity for the year then ended;
- the combined statement of cash flows for the year then ended; and
- the notes to the combined historical financial information, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Reporting accountant's responsibilities for the audit of the special purpose combined carve-out historical financial information* section of our report.

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

Independence

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

Emphasis of matter: Special purpose combined carve-out historical financial information

We draw attention to the fact that, as described in Annexure 1 of this Circular, the VAS Operations did not operate as a separate entity.

This special purpose combined carve-out historical financial information is, therefore, not necessarily indicative of results that would have occurred if the VAS Operations had been a separate stand-alone entity during the year presented or of future results of the VAS Operations.

Our opinion is not modified in respect of this matter.

Purpose of this report

This report has been prepared for the purpose of the Circular and for no other purpose.

Other Matter

The special purpose combined carve-out historical financial information of the VAS Operations as at 31 May 2018 and 31 May 2017, and for the years then ended were not audited but subject to review. A review engagement is substantially less in scope than an audit. The review report dated 30 October 2019 expressed an unqualified conclusion.

Responsibilities of the directors for the special purpose combined carve-out historical financial information

The directors of Blue Label Telecoms Limited are responsible for the preparation, contents and presentation of the Circular and are responsible for ensuring that Blue Label Telecoms Limited complies with the requirements of the JSE Limited Listings Requirements.

The directors of Blue Label Telecoms Limited are responsible for the preparation and fair presentation of the special purpose combined carve-out historical financial information of the VAS Operations in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements, and for such internal control as the directors determine is necessary to enable the preparation of special purpose combined carve-out historical financial information that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose combined carve-out historical financial information, the directors of Blue Label Telecoms Limited are responsible for assessing the VAS Operations' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the VAS Operations or to cease operations, or have no realistic alternative but to do so.

Reporting accountant's responsibilities for the audit of the special purpose combined carve out historical financial information

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

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

- Identify and assess the risks of material misstatement of the special purpose combined carve-out historical financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the VAS Operations' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of Blue Label Telecoms Limited.
- Conclude on the appropriateness of the directors of Blue Label Telecoms Limited use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the VAS Operations' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountant's report to the related disclosures in the special purpose combined carve-out historical financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our reporting accountant's report. However, future events or conditions may cause the VAS Operations to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the special purpose combined carve-out historical financial information, including the disclosures, and whether the special purpose combined carve-out historical financial information represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the VAS Operations to express an opinion on the combined carve-out historical financial information. We are responsible for the direction, supervision and performance of the VAS Operations audit. We remain solely responsible for our audit opinion.
- We communicate with the directors of Blue Label Telecoms Limited regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Inc.
Director: D. Storm
Registered Auditor
Johannesburg

30 October 2019

INDEPENDENT REPORTING ACCOUNTANTS' REVIEW REPORT ON THE SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF VAS OPERATIONS FOR THE FINANCIAL YEARS ENDED 31 MAY 2018 AND 2017

To the directors of Blue Label Telecoms Limited

Introduction

Blue Label Telecoms Limited is issuing a circular to its shareholders (the Circular) regarding its proposed sale of Blue Label Mobile Holdings Proprietary Limited and its subsidiaries ViaMedia (Pty) Ltd, Cellfind (Pty) Ltd, Airvantage Proprietary Limited (Airvantage SA), AV Technology Limited (AV Technology), Simigenix (Pty) Ltd and Panacea Mobile (Pty) Ltd (collectively the VAS Operations) and 3G Mobile (Pty) Ltd and its subsidiaries excluding Comm Equipment Company (Pty) Ltd (collectively 3G Distribution) (the Proposed Transaction).

At your request and for the purpose of the Circular to be dated on or about 6 November 2019, we have reviewed the accompanying statements of financial position of the VAS Operations as at 31 May 2018 and 2017 and the related statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information, as presented in Annexure 1 to the Circular, in compliance with the requirements of the JSE Limited Listings Requirements.

Directors' responsibility

The directors of Blue Label Telecoms Limited are responsible for the preparation, contents and presentation of the Circular and are responsible for ensuring that Blue Label Telecoms complies with the requirements of the JSE Limited's Listings Requirements.

The directors of Blue Label Telecoms Limited are responsible for the preparation and fair presentation of the special purpose combined carve-out historical financial information in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements, and for such internal control as the directors determine is necessary to enable the preparation of special purpose combined carve-out historical financial information that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose combined carve-out historical financial information, the directors of Blue Label Telecoms Limited are responsible for assessing the VAS Operations' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the VAS Operations or to cease operations, or have no realistic alternative but to do so.

Reporting accountant's responsibility

Our responsibility is to express a conclusion on the special purpose combined carve-out historical financial information of the VAS Operations. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410),* which applies to a review of historical financial information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the special purpose combined carve-out historical financial information of the VAS Operations.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the special purpose combined carve-out historical financial information of the VAS Operations, does not present fairly, in all material respects, the financial position of the VAS Operations as at 31 May 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements.

Purpose of the report

This report has been prepared for the purpose of the Circular and for no other purpose.

Emphasis of Matter: Special purpose combined carve-out historical financial information

We draw attention to the fact that, as described in Annexure 1 of this Circular, the VAS Operations have not operated as a separate entity. The special purpose combined carve-out historical financial information is, therefore, not necessarily indicative of results that would have occurred if the VAS Operations had been a separate stand-alone entity during the years presented or of future results of the VAS Operations.

Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers Inc.
Director: D.Storm
Registered Auditor
Johannesburg

30 October 2019

SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF 3G DISTRIBUTION FOR THE FINANCIAL YEAR ENDED 31 MAY 2019 AND THE 5 MONTHS ENDED 31 MAY 2018

Introduction to the special purpose combined carve out historical information financial for the year ended 31 May 2019, the 5 months ended 31 May 2018 and the combined special purpose historical financial information for the years ended 31 December 2017 and 2016

This report on the special purpose combined carve out historical financial information for the year ended 31 May 2019, the 5 months ended 31 May 2018 (special purpose combined carve out historical financial information of 3G Distribution) and the special purpose combined historical financial information for the years ended 31 December 2017 and 2016 of 3G Mobile Proprietary Limited (3G Mobile) including its subsidiaries Palmfree Holdings Proprietary Limited (Palmfree), Phone Fast Proprietary Limited (Phone Fast), Three G International Ltd (Three G International), Three G Mobile (Namibia) (Pty) Ltd (Three G Namibia) but excluding 3G Mobile's equity interest in Comm Equipment Company (Pty) Ltd (CEC) and loan to CEC (collectively 3G Distribution) should be read in conjunction with the Circular to Blue Label Telecoms Limited (Blue Label or the Company or BLT) shareholders dated 6 November 2019 prepared in connection with the disposal of the VAS Operations and the disposal of 3G Distribution.

The 3G Distribution business was acquired by Blue Label in December 2017. The term "carve-out" is used in the historical financial information for the year ended 31 May 2019 and the 5 months ended 31 May 2018 (as set out in Annexure 3A) as 3G Distribution is "carved out" of the consolidated financial statements of Blue Label. This is not applicable for the historical financial information for the year ended 31 December 2017 and 31 December 2016 (as set out in Annexure 3B) when Blue Label did not have control of 3G Distribution and 3G Distribution was not consolidated into Blue Label.

The combined carve out historical financial information of 3G Distribution for the year ended 31 May 2019 and the 5 months ended 31 May 2018 set out below has been prepared based on and more fully described in the basis of preparation set out in Note 1 to the special purpose combined carve out historical financial information of 3G Distribution for the year ended 31 May 2019 and 5 months ended 31 May 2018.

The special purpose combined carve out historical financial information for the year ended 31 May 2019 and the 5 months ended 31 May 2018 and the special combined historical financial information for the years ended 31 December 2017 and 2016 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 and are the responsibility of the directors of Blue Label.

The special purpose combined carve out historical financial information of 3G Distribution for the year ended 31 May 2019 and the 5 months ended 31 May 2018 has been audited and reviewed, respectively by PricewaterhouseCoopers Inc. The 3G Distribution combined historical financial information for the years ended 31 December 2017 and 2016 has been reviewed by BDO South Africa Incorporated.

The Independent Reporting Accountant's audit report on the special purpose combined carve out historical financial information of 3G Distribution for the year ended 31 May 2019, the review report for the 5 months ended 31 May 2018, and the review report for the years ended 31 December 2017 and 2016 are included in Annexure 4 to the Circular.

COMMENTARY

Strategic overview

3G Mobile was first established in 2006, initially trading mobile phones across Africa and Europe and has subsequently evolved to providing "just in time procurement" of mobile handsets to some of the leading retailers and service providers in Southern Africa. 3G Mobile has since grown to become an ever-expanding handset distribution enterprise and is now the biggest distributor of open market handsets in Southern Africa.

Our passionate work ethic, drive, entrepreneurial flair, keen attention to detail, marketing expertise and customer-centric approach to business, have all enabled rapid growth for our customers, suppliers and ourselves over the years.

3G Mobile currently operates in 7 countries in Southern Africa and Mauritius with offices in South Africa, Namibia, Botswana and Mauritius, and further trading presence in Lesotho, Mozambique, Swaziland and Zambia.

3G Mobile is the distributor of choice for almost all of the globally recognized telecommunication mobile handset manufacturers, and currently distributes a variety of branded mobile handsets, including, but not limited to:

- Samsung, Huawei, Hisense, Apple, Nokia and Mobicel to name a few.

3G Mobile currently services many of the leading national retailers within the various markets we operate in.

In addition, 3G Mobile supplies mobile handsets to many of the Network Operators outside South Africa, within the markets we operate.

Operating results

	Jan 2016 – Dec 2016: Reviewed R	Jan 2017 – Dec 2017: Reviewed R	Jan 2018 – May 2018: Reviewed R	June 2018 – May 2019: Audited R
Revenue	2 230 147 327	1 608 671 497	582 994 158	2 237 398 923
Cost of sales	(2 071 268 932)	(1 497 236 206)	(534 527 104)	(2 077 585 181)
Other gains/(losses)	(9 027 749)	1 796 766		
Employee compensation and benefit expense	(41 099 921)	(41 005 705)	(18 163 267)	(44 821 461)
Depreciation and amortisation	(4 337 864)	(3 922 133)	(5 927 345)	(13 388 797)
Operating expenses	(55 439 724)	(33 879 362)	(13 629 278)	(26 622 539)
Impairments and fair value losses			(2 758 879)	2 377 227
Operating profit	48 973 137	34 424 857	7 988 285	77 358 172
Finance costs	(1 615 987)	(856 859)	(302 723)	(3 766 192)
Finance income	5 091 299	4 838 064	6 193 324	13 873 813
Share of (losses)/gains from associate			158 786	(95 341)
Profit before taxation	52 448 449	38 406 062	14 037 672	87 370 452
Taxation	(18 180 980)	(14 502 490)	(4 633 147)	(23 215 610)
Profit for the year	34 267 469	23 903 572	9 404 525	64 154 842

Financial position

	Jan 2016 – Dec 2016: Reviewed R	Jan 2017 – Dec 2017: Reviewed R	Jan 2018 – May 2018: Reviewed R	June 2018 – May 2019: Audited R
Current assets	674 275 666	518 015 800	517 319 266	871 343 356
Current liabilities	361 372 697	179 791 606	188 910 217	452 921 456
Total assets	731 525 494	567 824 804	663 834 015	1 010 343 991
Total liabilities	361 761 255	180 074 610	209 370 484	469 284 625
Net asset value	369 764 239	387 750 194	454 463 532	541 059 367

Future Plans

3G Mobile is currently evaluating expanding our African footprint and our presence in several other African countries.

In addition to new market expansion, 3G Mobile is using its core competencies within the warehousing and logistics fields to expand our current basket offering to our existing and new potential clients. This exercise encompasses additional 3PL/4PL service offerings to our clients, as well as our suppliers. In addition, 3G is always evaluating new product categories to add to our existing basket of products.

In line with 3G Mobile's basket expansion strategy, 3G Mobile has recently negotiated distribution rights in several of its markets to include Consumer Electronics, and Cellular accessories.

In South Africa specifically, 3G Mobile is solidifying its reputation as the distributor of choice within the open market mobile handset industry and is focusing on partnering with new OEM's who are interested in launching their brands in South Africa. In addition, expanding its basket offerings to include cellular airtime, data, accessories, and 3PL/4PL services to its customer base.

With the current growth exceeding 3G Mobile's expectations, and in continuing 3G Mobile's customer centric approach to business and servicing our clients efficiently and effectively, 3G Mobile is currently moving premises to a larger, state of the art facility which will enable further growth and optimal expense targeting, relating to warehousing and logistics.

3G Distribution statement of comprehensive income

For the year ended 31 May 2019

	Notes	2019: Audited R	2018: Reviewed* R
Revenue	1.2	2 237 398 923	582 994 158
Changes in inventories of finished goods		(2 077 585 181)	(534 527 104)
Operating expenses		(26 622 539)	(13 629 278)
Employee compensation and benefit expense	5.2	(44 821 461)	(18 163 267)
Impairments and fair value losses		2 377 227	(2 758 879)
Depreciation and amortisation		(13 388 797)	(5 927 345)
Operating profit	1.3	77 358 172	7 988 285
Finance costs	1.4	(3 766 192)	(302 723)
Finance income	1.4	13 873 813	6 193 324
Share of (losses)/gains from associate		(95 341)	158 786
Profit before taxation		87 370 452	14 037 672
Taxation	6.1	(23 215 610)	(4 633 147)
Profit for the year		64 154 842	9 404 525
Profit for the year attributable to:			
Equity holders of the parent		64 156 379	9 405 521
Non-controlling interest		(1,537)	(996)
Net profit for the year		64 154 842	9 404 525
Items that may be subsequently reclassified to profit or loss			
Foreign exchange gain on translation of foreign operations		10 707 217	570 813
Other comprehensive loss for the year, net of tax		10 707 217	570 813
Total comprehensive income for the year		74 862 059	9 975 338
Total comprehensive income for the year attributable to:			
Equity holders of the parent		74 863 596	9 976 334
Non-controlling interest		(1 537)	(996)

Prior year figures represent the 5 months January to May 2018

3G Distribution statement of financial position

As at 31 May 2019

	Notes	31 May 2019: Audited R	31 May 2018: Reviewed R
ASSETS			
Non-current assets		139 000 636	146 514 749
Property, plant and equipment	4.3	6 552 999	6 638 384
Intangible assets	4.2	84 390 672	95 457 574
Goodwill	4.1	47 212 213	43 478 699
Investments in and loans to associates	2.1	844 751	940 092
Current assets		871 343 356	517 319 266
Inventories	4.4	298 861 210	98 833 104
Loans receivable	3.5.1	111 528 413	114 690 341
Trade and other receivables	3.5.2	427 780 233	269 889 229
Financial asset at fair value through profit and loss	3.7	4 051 083	624 075
Current tax assets		2 503 894	6 385 181
Cash and cash equivalents excluding bank overdrafts	3.5.3	26 618 522	26 897 336
Total assets		1 010 343 991	663 834 015
EQUITY AND LIABILITIES			
Capital and reserves		541 059 367	454 463 532
Other reserves		4 736 074	(5 971 143)
Contribution from parent		536 318 846	460 428 691
Total ordinary shareholders' equity		541 054 920	454 457 548
Non-controlling interest		4 447	5 984
Non-current liabilities		16 363 169	20 460 267
Deferred taxation liabilities	6.2	15 898 114	20 460 267
Share-based payment liability		465 055	–
Current liabilities		452 921 456	188 910 217
Trade and other payables	3.6.1	434 817 983	168 221 921
Provisions	4.5	4 737 118	3 596 923
Current tax liabilities		2 645 733	5 020 564
Borrowings	3.6.2	2 908 551	12 070 809
Bank overdraft	3.5.3	7 812 071	–
Total equity and liabilities		1 010 343 991	663 834 015

3G Distribution statement of changes in equity

For the year ended 31 May

	Contribution from parent R	Foreign currency translation reserve R	Total ordinary shareholders' equity R	Non-controlling interest R	Total equity R
Balances as at 1 January 2018	459 671 894	(6 541 956)	453 129 938	6 980	453 136 918
Adjustment on the initial application of IFRS 9	(8 648 724)		(8 648 724)		(8 648 724)
Adjusted opening balance as at 1 January 2018	451 023 170	(6 541 956)	444 481 214	6 980	444 488 194
Net profit for the year	9 405 521		9 405 521	(996)	9 404 525
Exchange differences on translation of foreign operations		570 813	570 813		570 813
Total comprehensive income/(loss)	9 405 521	570 813	9 976 334	(996)	9 975 338
Balance as at 31 May 2018	460 428 691	(5 971 143)	454 457 548	5 984	454 463 532
Net profit for the year	64 156 379		64 156 379	(1 537)	64 154 842
Exchange differences on translation of foreign operations		10 707 217	10 707 217		10 707 217
Total comprehensive income/(loss)	64 156 379	10 707 217	74 863 596	(1 537)	74 862 059
Contribution from parent	11 733 776		11 733 776		11 733 776
Balance as at 31 May 2019	536 318 846	4 736 074	541 054 920	4 447	541 059 367

3G Distribution statement of cash flows

For the year ended 31 May

	Notes	2019: Audited R	2018: Reviewed R
Cash generated by operations	1.5	1 121 733	4 238 385
Interest received		13 873 813	6 193 324
Interest paid		(3 766 192)	(302 723)
Taxation paid		(26 499 218)	(5 469 329)
Net cash (utilised in)/generated from operating activities		(15 269 864)	4 659 657
Cash flows from investing activities			
Proceeds on disposal of property, plant and equipment		198 983	–
Acquisition of property, plant and equipment	4.3	(1 496 527)	(569 373)
Loan repaid by related parties		116 700 189	–
Loans advanced to related parties		(111 528 413)	(90 216 263)
Investment in Blue Label Telecoms Limited shares		(3 523 591)	–
Net cash generated by/(utilised in) investing activities		350 641	(90 785 636)
Cash flows from financing activities			
Loan advanced by related party		2 637 535	–
Contribution from parent		11 733 776	
Repayment of borrowings		(11 799 793)	(49 396)
Net cash generated/(utilised) in financing activities		2 571 519	(49 396)
Net decrease in cash and cash equivalents		(12 347 704)	(86 175 375)
Cash and cash equivalents at the beginning of the year		26 897 336	111 829 364
Exchange gains on cash and cash equivalents		4 256 819	1 243 347
Cash and cash equivalents at the end of the year	3.5.3	18 806 451	26 897 336

NOTES TO THE SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF 3G DISTRIBUTION

1. PURPOSE

1.1 Accounting framework

Description of the business

The special purpose combined carve-out historical financial information of 3G Distribution consists of the handset and tablet distribution business of Blue Label, representing the activities, assets and liabilities of the underlying businesses. 3G Distribution was historically conducted through separate legal entities within the 3G Mobile group of companies within Blue Label; the combination of these operations is referred to as 3G Distribution in the special purpose combined carve-out historical financial information.

Blue Label acquired its investment in 3G Distribution, through its acquisition of 3G Mobile. Blue Label acquired the entire issued share capital of 3G Mobile in two tranches from August to December 2017. Following the acquisition of 3G Mobile by Blue Label, 3G Mobile's year-end was changed from December to May to align to the Blue Label year-end, commencing from 1 January 2018. The following periods of information are therefore presented in the special purpose combined carve-out historical financial information:

- 12 months ended 31 May 2019
- 5 months ended 31 May 2018

3G Distribution historically did not exist as a reporting group and no separate consolidated financial statements were therefore prepared for 3G Distribution. For the purpose of presenting the historical performance of 3G Distribution for the proposed disposal of 3G Distribution by Blue Label, special purpose combined carve-out historical financial information for the year ended 31 May 2019 and the five months ended 31 May 2018, has been prepared.

Blue Label's investment in 3G Distribution

As outlined in the main body of the proposed transaction referred to as part of this circular, during September 2019, BLT was approached by a potential buyer to purchase certain entities that provide handset and tablet distributions services, comprising:

Company	Nature of operations	Blue Label's statutory shareholding as at 31 May 2019
3G Mobile	Sales and distribution of mobile handsets and related accessories	100%
Palmfree	Sales and distribution of mobile handsets and related accessories	100%
Phone Fast	Sales and distribution of mobile handsets and related accessories	100%
Three G Mobile (Namibia)	Sales and distribution of mobile handsets and related accessories	98%
Three G Smart Technology	Sales and distribution of mobile handsets and related accessories	100%
Three G International	Sales and distribution of mobile handsets and related accessories	100%
Three G Mobile	Sales and distribution of mobile handsets and related accessories	100%
Three G Mobile Zambia	Sales and distribution of mobile handsets and related accessories	99%
Three G Mobile (Mauritius)	Sales and distribution of mobile handsets and related accessories	100%

3G Mobile holds investments in Palmfree, Phone Fast, Three G International, Three G Mobile (Mauritius), Three G Mobile Zambia, Three G Mobile, Three G Smart Technology and Three G Mobile Namibia. 3G Mobile also has an equity investment in CEC which, together with its subsidiaries, provides handset financing predominantly to customers of Cell C Limited. As part of the proposed transaction Blue Label will not dispose of its investment in CEC and CEC will continue to be held by the Blue Label Group. 3G Mobile has historically provided loan financing to CEC; the loan financing will be excluded from the sale transaction and will continue to exist between Blue Label and CEC post the transaction.

As such, the reporting entity for the purposes of these special purpose combined carve-out historical financial information comprises 3G Mobile (excluding 3G Mobile's equity investments in CEC and 3G Mobile's loan to CEC), Palmfree, Phone Fast, Three G International and Three G Mobile Namibia (collectively the Group or 3G Distribution). The operations comprising 3G Distribution have historically for the reporting periods presented been under common control of Blue Label and common management and the economic activities of these entities will be legally bound together through the proposed transaction.

Basis of preparation

IFRS compliance

3G Distribution did not historically constitute a combined legal group. The special purpose combined carve-out historical financial information of 3G Distribution is prepared by aggregating the historical financial information of the entities listed above as at and for the year ended 31 May 2019 and the five months ended 31 May 2018 (the Reporting Periods).

The special purpose combined carve-out historical financial information of 3G Distribution is presented in accordance with, and complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and effective at the time of preparing the Combined Carve-out Historical Financial Information of 3G Distribution, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the JSE Listings Requirements.

The special purpose combined carve-out historical financial information is prepared using the historical cost basis apart from certain financial instruments (including derivative instruments and equity investments) and cash-settled share-based payment scheme liabilities stated at fair-value.

IFRS do not specifically provide guidance for the preparation of special purpose combined carve-out historical financial information, and accordingly in preparing the special purpose combined carve-out historical financial information, certain accounting conventions commonly used in the preparation of special purpose combined carve-out historical financial information for inclusion in circulars, have been applied in accordance with IAS 8, which are discussed in more detail below. The special purpose combined carve-out historical financial information has consequently been prepared as a combination of the historic financial information recognised in the Blue Label consolidated financial statements related to 3G Distribution (predecessor accounting). The assets of 3G Distribution recognised include goodwill and intangible assets recognised in the Blue Label consolidated financial statements that relate to 3G Distribution.

The special purpose combined carve-out historical financial information for the year ended 31 May 2019 and the five months ended 31 May 2018, has been prepared for the purpose of presenting, as far as practically possible, the financial position, results of operations and cash flows of 3G Distribution on a standalone basis.

The special purpose combined carve-out historical financial information is presented in South African Rand (ZAR). The special purpose combined carve-out historical financial information was authorised for issue by the Board of Directors of Blue Label on 29 October 2019. Separate company historical financial information has not been prepared due to 3G Distribution not constituting a combined legal group for the historical reporting periods.

Limitations inherent to carve-out

As the special purpose combined carve-out historical financial information of 3G Distribution has been prepared on a combined basis, they may not be indicative of the future performance of 3G Distribution and do not necessarily reflect what its results of operations, financial position and cash flows would have been, had 3G Distribution operated as an independent entity during the periods presented.

Bank overdraft represents working capital facility in place in Three G Mobile (Mauritius) Limited.

The following principles were applied in the preparation of the special purpose combined carve-out historical financial information:

Equity

- Share capital and earnings per share – As 3G Distribution did not historically constitute a combined legal group there is no issued share capital. The information on earnings per share for 3G Distribution pursuant to IAS 33 has not been presented, as no capital structure has been presented in the special purpose combined carve-out historical financial information.
- Contribution from parent – As a result of applying predecessor accounting, the contribution from Blue Label is recognised at the carrying value of the net assets contributed to 3G Distribution at the earliest comparative period presented. This contribution represents the aggregated combined share capital and retained earnings of the entities included in the special purpose combined carve-out historical financial information of 3G Distribution at the earliest comparative period presented, adjusted for goodwill and intangible assets recognised in the Blue Label consolidated financial statements and 3G Mobile's investment in and loan to CEC. The opening balance and movements in aggregated combined share capital and retained earnings of the entities included in the special purpose combined carve-out historical financial information of 3G Distribution has been described as 'Contribution from parent' in the combined statement of changes in equity of 3G Distribution.
- Other reserves – Other reserves have been separately presented and comprise the aggregated foreign currency translation reserves of the entities included in the special purpose combined carve-out historical financial information of 3G Distribution. This category of equity has been separately presented because it will be recycled to profit and loss in future periods.

Allocation of central costs

3G Mobile has historically performed all of its own management and corporate functions and operated independently from Blue Label. Accordingly, all corporate expenses (including payroll, finance, legal, rent etc.) and management fees have been historically recognised in the statutory financial statements of the entities comprising 3G Distribution. No further allocation of central costs has therefore been made.

CEC has operated independently from 3G Mobile and has been under separate management. All management and corporate functions related to CEC have historically been recognised in the statutory financial statements of CEC and its subsidiaries and therefore no central costs need to be allocated out of 3G Mobile to CEC.

Share-based compensation

All forfeitable share awards that have been granted to employees of 3G Distribution, were granted by the entities comprising 3G Distribution and are required to be settled by the entities themselves. The awards will be settled in Blue Label shares and therefore the schemes have been accounted for as cash-settled share-based payments arrangements in the special purpose combined carve-out historical financial information because the shares required to settle the awards are not 3G Distributions' shares or shares of any entity in 3G Distribution business.

Taxation

The entities that comprise 3G Distribution have historically filed separate tax returns in the countries where these legal entities are tax resident. The income taxes have been accounted for using the separate tax return method by aggregating the tax positions of the individual entities of 3G Distribution. No 3G Distribution entities have raised deferred taxes on assessed losses historically in the special purpose combined carve-out historical financial information.

Goodwill and intangible assets

The goodwill and intangible assets included in the special purpose combined carve-out historical financial information are those that arose when Blue Label acquired control of the entities within 3G Distribution. During the Reporting Periods presented, goodwill was tested for impairment for identified cash generating units being the cash-generating units used at that time by Blue Label to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for 3G Distribution.

Intercompany and related party transactions and balances

Transactions and balances with Blue Label Group companies, including CEC and its subsidiaries, have been disclosed as related party transactions and balances in the special purpose combined carve-out historical financial information. All intergroup transactions, balances and unrealised gains and losses on transactions between entities comprising 3G Distribution are eliminated.

Directors' remuneration has been excluded due to 3G Distribution not constituting a combined legal group for the historical Reporting Periods and not having a separate board of directors.

Segments

Segment reporting has not been included in the special purpose combined carve-out historical financial information because 3G Distributions' equity and debt instruments are not currently, or planned in the future to be, traded in a public market.

Subsequent events

The Blue Label consolidated financial statements, from which these special purpose combined carve-out historical financial information was derived, were authorised for issue on 26 September 2019. Subsequent events have been considered from 31 May 2019 up to the date that these special purpose combined carve-out historical financial information were authorised for issuance.

Going concern

3G Distribution's forecasts and projections, taking account of reasonably possible changes in trading performance, show that 3G Distribution should be able to operate within its current funding levels into the foreseeable future.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing the special purpose combined carve-out historical financial information.

1.2 Revenue

The Group earns revenue from the sale of handsets, tablets and other devices. The Group interacts with a broad cross section of South African society, but also trades in Namibia, Botswana, Mauritius, Lesotho and Swaziland.

Revenue is shown net of indirect taxes, estimated returns, rebates and discounts, and after eliminating sales within the Group.

Revenue source	Performance obligations included	Recognition	Measurement and terms of sale	Critical estimates and judgements
Handsets, tablets and other devices	This category represents revenue earned on the sale of handsets, tablets, accessories and other devices to customers through the groups wholesale and retail distribution channels.	Revenue from the sale of these goods is recognised at a point in time when control of the goods transfers to the customer, which is generally on acceptance of the goods by the customer.	Revenue on the sale of these goods is measured at the effective selling price of the items sold after subtracting discounts and rebates granted to customers on volume purchases and early settlement where applicable. Payment terms are between 30 and 60 days.	The group has assessed that the right of return that customers have in relation to sold goods does not have a significant impact on the revenue recognised, this is due to the fact that the majority of returns are related to products returned under warranty where back to back warranty arrangements are in place with the product manufacturer and thus there is a minimal impact on revenue recognised.

Revenue

		2019: Audited R	2018: Reviewed R
Revenue from sale of goods Handsets, tablets and other devices		2 237 398 923	582 994 158
Revenue from sale of goods by customer industry:			
Independents and Informal retail customers		544 179 936	123 527 522
Formal market retail customers		928 008 768	229 964 033
Cellular Networks		275 038 986	69 453 667
CEC		490 171 233	160 048 936
		2 237 398 923	582 994 158

1.3 Operating profit

		2019: Audited R	2018: Reviewed R
The following has been charged/(credited) in arriving at operating profit:			
Changes in inventories of finished goods		2 072 005 606	552 463 944
Movement of provision for inventory obsolescence		5 579 575	(17 936 840)
Audit fees		1 546 697	418 884
Commissions paid to sales representatives		3 233 159	820 489
Computer expenses		2 920 705	1 233 777
Depreciation and amortisation		13 388 797	5 678 818
Foreign exchange losses		1 922 928	2 788 879
Employee costs	5.1	44 821 461	18 163 267
Legal fees		2 276 982	882 916
Operating lease rentals – premises		2 952 395	1 297 482
Impairments and fair value losses comprise the following:			
Arising from the application of IFRS 9 expected credit loss requirements:			
Reversal of impairment of loans		(2 009 848)	
Fair value loss recognised in profit or loss		96 582	(781 739)
Trade receivables written off/(reversal of write off)		(463 961)	3 540 618

1.4 Finance costs and finance income

Finance costs/income are recognised in profit and loss using the effective interest rate method as the instruments to which this relates are measured at amortised cost.

	2019: Audited R	2018: Reviewed R
Finance costs		
– Bank	597 375	302 723
– Related-party loans	2 335 447	–
– Namibian Inland Revenue Authority	833 370	–
	3 766 192	302 723
Finance income		
– Bank	774 525	728 963
– Related-party loans	13 073 419	5 265 931
– Other	25 869	198 429
	13 873 813	6 193 324
Net finance income	10 107 621	5 890 600

1.5 Cash generated by operations

	2019: Audited R	2018: Reviewed R
Reconciliation of operating profit to cash generated by operating activities:		
Profit before taxation	87 370 452	14 037 672
Adjustments for:		
Depreciation and amortisation	13 388 797	5 927 345
Net loss on disposal of property, plant and equipment	(1 112)	–
Interest received	(13 873 813)	(6 193 324)
Interest paid	3 766 192	302 723
Movements in provisions	1 140 195	–
Share of losses/(gains) from associates	95 341	(158 786)
Share-based payment expense	465 055	
Fair value movement in derivative financial instruments	96 582	(781 739)
Changes in working capital:		
(Increase)/decrease in inventories	(200 028 105)	(19 349 173)
(Increase)/decrease in trade and other receivables	(157 891 004)	15 279 158
Increase in trade and other payables	266 593 153	(4 825 491)
	1 121 733	4 238 385

Net debt reconciliation

	Liabilities from financing activities		
	Finance leases due within 1 year R	Borrowings due within 1 year R	Total R
Net debt as at 1 January 2018	386 429	11 464 508	11 850 937
Borrowing raised		269 268	269 268
Borrowings repaid	(49 396)		(49 396)
Net debt as at 31 May 2018	337 033	11 733 776	12 070 809
Borrowing raised		2 637 535	2 637 535
Borrowings repaid	(66 017)	(11 733 776)	(11 799 793)
Net debt as at 31 May 2019	271 016	2 637 535	2 908 551

2. GROUP COMPOSITION

Basis of composition of the special purpose combined carve-out historical financial information of 3G Distributions for the year ended 31 May 2019 and the 5 months ended 31 May 2018

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in profit or loss in other income or other expenses.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

The Group has the following investments that have been accounted for as subsidiaries:

Name of entity	Place of Business/ Country of incorporation	Ownership interest held by the group		Ownership interest held by non-controlling parties		Principal activities
		2019: Audited	2018: Reviewed	2019: Audited	2018: Reviewed	
Palmfree Holdings (Pty) Ltd	South Africa	100%	100%	0%	0%	Dormant Entity
PhoneFast (Pty) Ltd	South Africa	100%	100%	0%	0%	Distribution of mobile handsets, tablets and accessories
Three G International Ltd	Seychelles	100%	100%	0%	0%	Investment company
Three G Mobile (Namibia) (Pty) Ltd	Namibia	98%	99%	2%	1%	Distribution of mobile handsets, tablets and accessories
Three G Smart Technology	Namibia	100%	100%	0%	0%	Distribution of mobile handsets, tablets and accessories
Three G Mobile	Seychelles	100%	100%	0%	0%	Distribution of mobile handsets, tablets and accessories
Three G Mobile Zambia	Zambia	99%	99%	1%	1%	Distribution of mobile handsets, tablets and accessories
Three G Mobile (Mauritius)	Mauritius	100%	100%	0%	0%	Distribution of mobile handsets, tablets and accessories

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions, i.e. transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Associates

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Loans made to associates that are equity in nature are treated as part of the cost of the investment made.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. The carrying amount of the investment is also adjusted for the Group's share of post-acquisition movements in other net assets.

The Group determines at each reporting date if there are any indicators which would require the Group to test whether the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) from associates in the income statement.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

When the Group's share of losses in an associate equals or exceeds its interests in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group has the following investment in associate:

- 3G Mobile Botswana (Pty) Ltd (50%):
- Post-year end, the remaining 50% of the shares was purchased.

Critical accounting judgements and assumptions

(a) Valuation of intangible assets acquired as part of a business combination

The fair values of all identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the Group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

2.1 Investment in associate

The Group holds a 50% interest in 3G Mobile (Botswana) Proprietary Limited. As the Group does not control this entity the investment has not been consolidated but rather equity accounted as an investment in associate. Post-year-end, the group acquired the remaining 50% shares in 3G Mobile Botswana (Pty) Ltd for P4 500 000.

	3G Mobile (Botswana) Proprietary Limited R
Carrying value of associate as at 1 January 2018	781 306
Equity accounted Share of profits from associate	158 786
Carrying value of associate as at 31 May 2018	940 092
Equity accounted Share of losses from associate	(95 341)
Carrying value of associate as at 31 May 2019	844 751

3. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Financial instruments carried on the statement of financial position include:

Financial assets

- Loans receivable
- Trade and other receivables
- Cash and cash equivalents
- Financial assets at fair value through profit and loss

Financial liabilities

- Loans payable
- Trade and other payables
- Bank overdraft
- Interest-bearing borrowings

Financial assets and liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are classified as current if expected to be realised within 12 months of the statement of financial position date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the Group has the right to defer settlement beyond 12 months of the statement of financial position date.

The Group classifies financial assets on initial recognition as measured at amortised cost or fair value through profit and loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset.

Financial assets are classified as follows:

Measurement category	Criteria
Amortised cost	The asset is held within a business model with the objective to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.
Fair value through profit or loss	Debt investments that do not qualify for measurement at amortised cost or FVOCI (the Group does not currently hold any FVOCI instruments); and equity investments that are held for trading.

Financial assets are not reclassified unless the Group changes its business model for managing those financial assets. In rare circumstances where the Group does change its business model, reclassifications are done prospectively from the date that the Group changes its business model.

Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at FVTPL.

Measurement on initial recognition

All financial assets (unless it is a trade receivable without a significant financing component) and liabilities are initially measured at fair value, including transaction costs, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. A trade receivable without a significant financing component is initially recognised at the transaction price.

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below:

Category	Subsequent measurement
Financial assets Amortised cost	These financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss.
Fair value through profit or loss	These financial assets are subsequently measured at fair value and changes therein (including any interest or dividend income) are recognised in profit or loss.
Financial liabilities Amortised cost	These financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign exchange gains and losses are recognised in profit or loss.
Interest-bearing borrowings	These financial liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Impairment

Under IFRS 9 the Group calculates its allowance for credit losses as expected credit losses (ECLs) for financial assets measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

To calculate ECLs 3G Distribution segments/groups trade receivables by customer type, as disclosed in the Trade and Other receivables note (note 3.5.2). 3G Distribution applies the simplified approach to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables. ECLs for trade and other receivables are calculated using a provision matrix. Refer to the credit risk note (note 3.1) for more detail about ECLs and how this is calculated.

ECLs for receivables other than trade receivables have been determined using the General Approach in IFRS 9. Under the general approach, an entity calculates expected credit losses for loans and receivables at initial recognition by considering the consequences and probabilities of possible defaults only for the next 12 months, rather than the life of the asset. It continues to apply this method until a significant increase in credit risk has occurred, at which point the loss allowance is measured based on Lifetime ECLs.

Financial risk management

In the course of its business, the Group is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the Group's objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity in the Group on a daily basis based on their specific operational requirements.

Classes of financial instruments

	2019: Audited R	2018: Reviewed R
Financial assets		
Trade and other receivables	395 689 678	262 334 311
Cash and cash equivalents	26 618 522	26 897 336
Loans receivable	111 528 413	114 690 341
Financial assets at fair value through profit or loss	4 051 083	624 075
	537 887 696	404 546 063
Financial liabilities		
Trade and other payables	423 629 806	161 227 109
Borrowings	2 908 551	12 070 809
Bank overdraft	7 812 071	
	434 350 428	173 297 918
Net financial position	103 537 268	231 248 145

Reconciliation of financial assets and non-financial assets:

	2019: Audited			2018: Reviewed		
	Total R	Financial asset R	Non-financial asset R	Total R	Financial asset R	Non-financial asset R
Loans receivable	111 528 413	111 528 413	–	114 690 341	114 690 341	–
Trade and other receivables	427 780 233	395 689 678	32 090 555	269 889 229	262 334 311	7 554 918
Financial assets at fair value through profit and loss	4 051 083	4 051 083	–	624 075	624 075	–
Cash and cash equivalents	26 618 522	26 618 522	–	26 897 336	26 897 336	–
	569 978 251	537 887 696	32 090 555	412 100 981	404 546 063	7 554 918

Reconciliation of financial liabilities and non-financial liabilities:

	2019: Audited			2018: Reviewed		
	Total R	Financial liability R	Non-financial liability R	Total R	Financial liability R	Non-financial liability R
Trade and other payables	434 817 983	423 629 806	11 188 177	168 221 921	161 227 109	6 994 812
Bank overdraft	7 812 071	7 812 071	–	–	–	–
Borrowings	2 908 551	2 908 551	–	12 070 809	12 070 809	
	445 538 605	434 350 428	11 188 177	180 292 730	173 297 809	6 994 812

3.1 Credit risk

Credit risk, or the risk of financial loss to the Group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures. The Group is exposed to credit risk on financial assets mainly in respect of those assets detailed in the table below. The carrying amounts of financial assets represent the maximum credit exposure, this exposure is considered without taking into account any collateral and financial guarantees, to be as follows:

	2019: Audited R	**2018: Reviewed R**
Financial assets		
Trade and other receivables	395 689 678	262 334 311
Cash and cash equivalents	26 618 522	26 897 336
Loans receivable	111 528 413	114 690 341
	533 836 613	403 921 988

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which external credit ratings are available. External credit ratings were based on the latest Moody's default ratings. The counterparties were categorised as follows:

Group 1: Financial institutions with a Moody's long term debt issuer rating of Baa3 or better, or cash on hand.

Group 2: Fully performing, with a Moody's rating of Baa3 or better.

Group 3: Fully performing with a Moody's rating of between Ba1 and Caa2.

Group 4: Counterparties who are considered to be in default and those that have a Moody's rating of Caa3 or lower.

	2019: Audited R	**2018: Reviewed R**
Counterparties with external credit rating		
Group 1	26 618 522	26 897 336
	26 618 522	26 897 336

The table below discloses the credit quality of the financial assets (excluding trade receivables) of the Group for which no external credit rating is available. Equivalent credit ratings were based on the latest Moody's default ratings. Management defines default as when counterparties miss payments and future payments are either suspended or unlikely. The counterparties were categorised as follows:

Group 1: Fully performing counterparties, who are highly collateralised, with no external credit ratings.

Group 2: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of B1 or better.

Group 3: Fully performing counterparties, with a credit rating equivalent to a Moody's rating of between B2 and Caa2.

Group 4: Counterparties who are considered to be in default and have an equivalent Moody's rating of Caa3 or lower.

	2019: Audited R	**2018: Reviewed R**
Counterparties without external credit rating		
Group 2	111 528 413	114 690 341
Total	111 528 413	114 690 341

Expected credit losses

The Group has the following financial assets subject to the expected credit loss model:

- Trade and other receivables
- Cash and cash equivalents
- Loans receivable

Included in loans receivable are amounts receivable to which the Group has applied the general impairment model. The Group has considered the financial performance, external debt and future cash flows of the related parties and based on these, determined the credit risk relating to these receivables. The Group applies the simplified approach using a provision matrix to determine the ECL for trade and other receivables. This results in calculating lifetime expected credit losses for trade and other receivables.

Provision Matrix – ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write offs to the payment profile of the sales population. In instances where there was no evidence of historical write offs management used a proxy write off for similar receivables obtained from external credit rating agencies. Trade receivable balances have been grouped so that the ECL calculation is performed on Groups of receivables with similar risk characteristics and ability to pay. Exposures are mainly segmented by customer type i.e. Banks, Independent and Informal retail customers etc. This is done to allow for risk differentiation. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward-looking information to determine the ECL for the portfolio of trade receivables at the reporting period to the extent that there is a strong correlation between the forward-looking information and the ECL. In most instances no material adjustments have been made due to the inclusion of forward looking information as the majority of Trade Receivables are settled within a relatively short period (under 60 days on average).

The Group used 36 to 48 months sales data to determine the payment profile of the sales. Where the Group has information about actual historical write-offs, actual write-offs have been used to determine a historic loss ratio. Alternatively, management has used a proxy write-off based on management's best estimate including information obtained from external ratings agencies. The Group has considered quantitative forward looking information such as the core inflation rate. Qualitative assessments have also been performed, of which the impact was found to be immaterial.

Management consider trade receivables aged in excess of 90 days past due (where the excessive ageing is not caused by administrative delays that are within the control of the Group), and those handed over to the Group's attorneys for legal collection processes, to be in default and accordingly increase the allowance for impairment raised on these receivables. This policy is applied to all receivables.

Trade receivables are written off when there is no reasonable expectation of recovery. This is assessed individually by each operation and includes for example where the trade receivables have been handed over for collection and remain outstanding or the debtor has entered bankruptcy. Other receivables and other financial assets are individually assessed by management based on each situation's unique facts and circumstances and are written off when management believe that there is no reasonable expectation of recovery.

(i) Trade and other receivables

The Group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. A large portion of the Group's revenues are generated in South Africa, Namibia, Botswana, Mauritius, Lesotho and Swaziland. There are no other significant geographical concentrations of credit risk. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. Customers cannot exceed their set credit limit, without specific Senior Management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the receivables age analysis and follows up on long-outstanding receivables. Allowances for impairment are raised in accordance with Group policy which has been revised to be in line with the requirements of IFRS 9. The Group's customer base has been aggregated into groupings that represent, to a large degree, how the Group manages its receivables and also illustrates the spread of credit risk. Within these aggregated groupings, the Group's exposure to credit risk is made up major retailers; wholesalers; and cellular networks; the balance of the customer base is widely dispersed.

The loss allowance as at 31 May 2019 for trade receivables and other receivables to which the provision matrix has been applied is determined as follows:

Ageing and impairment analysis

	Gross R	Impairment R	Net R
31 May 2019: Audited			
Fully performing receivables			
Trade receivables arising on revenue from sales of goods			
Independent and Informal retail customers	65 297 146	–	65 297 146
Formal market retail customers	83 093 054	(8 438)	83 084 616
Edcon	30 970 419	(8 643 576)	22 326 843
Other Cellular Networks	28 899 864	(2 094)	28 897 770
Comm Equipment Company	36 433 940	–	36 433 940
Associates	144 196	–	144 196
Past due receivables			
Trade receivables arising on revenue from sale of goods			
Independents and Informal retail customers			
Past due by 1 to 30 days	19 681 797	–	19 681 797
Past due by 31 to 60 days	4 354 242	–	4 354 242
Past due by 61 to 90 days	6 195 866	–	6 195 866
Past due by more than 90 days	2 787 577	(2 432 252)	355 325
Formal market retail customers			
Past due by 1 to 30 days	32 270 079	(9 696)	32 260 382
Past due by 31 to 60 days	5 488 576	(3 568)	5 485 008
Past due by 61 to 90 days	13 274 726	(773 294)	12 501 432
Past due by more than 90 days	4 502 212	(4 502 212)	–
Edcon			
Past due by 1 to 30 days	3 065 676	(3 065 676)	–
Past due by 31 to 60 days	–	–	–
Past due by 61 to 90 days	–	–	–
Past due by more than 90 days	–	–	–
Other Cellular Networks			
Past due by 1 to 30 days	1 901 043	(868)	1 900 175
Past due by 31 to 60 days		–	–
Past due by 61 to 90 days	6 130	(73)	6 057
Past due by more than 90 days		–	–
Associates			
Past due by 1 to 30 days		–	–
Past due by 31 to 60 days	72 343	–	72 343
Past due by 61 to 90 days		–	–
Past due by more than 90 days	30 299 398	(3 029 940)	27 269 458
Past due by more than 90 days	368 738 283	(22 471 688)	346 266 596

	Gross R	Impairment R	Net R
31 May 2018: Reviewed			
Fully performing receivables			
Trade receivables arising on revenue from sales of goods			
Independent and Informal retail customers	31 221 015	–	31 221 015
Formal market retail customers	33 878 006	(329 696)	33 548 310
Edcon	40 093 130	(413 893)	39 679 237
Other Cellular Networks	15 102 341	(5 168)	15 097 173
Comm Equipment Company	39 964 079	–	39 964 079
Associates	–	–	–
Past due receivables			
Trade receivables arising on revenue from sale of goods			
Independents and Informal retail customers			
Past due by 1 to 30 days	2 131 320	–	2 131 320
Past due by 31 to 60 days	2 328 177	–	2 328 177
Past due by 61 to 90 days	1 374 461	–	1 374 461
Past due by more than 90 days	2 119 556	(2 010 387)	109 169
Formal market retail customers			
Past due by 1 to 30 days	17 865 287	(305 573)	17 559 714
Past due by 31 to 60 days	4 649 221	(67 903)	4 581 318
Past due by 61 to 90 days	276 716	(11 952)	264 764
Past due by more than 90 days	3 999 400	(3 808 475)	190 925
Edcon			
Past due by 1 to 30 days	23 654 963	(9 584 654)	14 070 309
Past due by 31 to 60 days	2 068 530	(2 068 529)	0
Past due by 61 to 90 days		–	–
Past due by more than 90 days	–	–	–
Other Cellular Networks			
Past due by 1 to 30 days	4 889 057	(3 728)	4 885 329
Past due by 31 to 60 days	176 206	(222)	175 984
Past due by 61 to 90 days	–	–	–
Past due by more than 90 days	–	–	–
Associates			
Past due by 1 to 30 days	732 761	–	732 761
Past due by 31 to 60 days	361 663	–	361 663
Past due by 61 to 90 days	2 550 449	–	2 550 449
Past due by more than 90 days	26 977 066	(4 046 560)	22 930 506
	256 413 404	(22 656 741)	233 756 663

	2019: Audited R	2018: Audited R
Provision for impairment of trade receivables		
Balance at the beginning of the year	22 656 741	9 085 019
Amounts restated through opening retained earnings		12 012 117
Allowance made during the year	358 237	1 559 605
Amounts utilised and reversal of unutilised amounts	(543 290)	–
Closing balance at the end of the year	22 471 688	22 656 741

(ii) Cash and cash equivalents

The Group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings. The Group has significant concentrations of credit risk with FirstRand Bank Limited in line with its treasury function. FirstRand Bank Limited has a credit rating of Baa3 based on the latest Moody's local currency long-term issuer default ratings.

(iii) Loans receivable

The Group has provided loans to related parties with the purpose of maximising interest return. These loans have been extended on various terms depending on Management's assessment of the business rationale for the provision thereof. The Group manages credit risk by following strict protocols for the approval and monitoring of these loans. Management regularly reviews these loans and uses an internal ratings based system to track credit risk thereon. Allowances for impairment are raised in accordance with the general model in IFRS 9 to which Group policy has been aligned.

The loss allowance as at 31 May 2019 for loans receivable is determined as follows:

	Gross R	Impairment R	Net R
31 May 2019: Audited			
Loans advanced to related parties without external ratings	111 528 413	–	111 528 413
	111 528 413	–	111 528 413
31 May 2018: Reviewed			
Loans advanced to related parties without external ratings	116 700 189	(2 009 848)	114 690 341
	116 700 189	(2 009 848)	114 690 341

3.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, under both normal and stressed circumstances.

The Group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available. Cash flow forecasting is performed in the operating entities of the Group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Maturity of financial liabilities

The table below analyses the undiscounted cash flows for the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

	Note reference	Less than one month or on demand R	More than one month but not exceeding one year R
2019: Audited			
Trade and other payables	3.6.1	236 508 988	187 117 908
Borrowings	3.6.2	2 771 553	136 998
Bank overdraft	3.5.3		7 812 071
Total		239 280 541	195 066 977
2018: Reviewed			
Trade and other payables	3.6.1	90 012 369	71 214 740
Borrowings	3.6.2	118 337	11 952 472
Total		90 130 705	83 167 212

Trade and other payables exclude non-financial instruments, being VAT and certain amounts included within accruals and sundry creditors.

3.3 Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The Group is not exposed to significant levels of price risk.

(i) Interest Rate Risk

The Group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents, and loans payable carrying interest at variable rates. The Group is not exposed to fair value interest rate risk as the Group does not have any fixed interest-bearing instruments carried at fair value other than the instruments detailed in note 3.7 where the fair value risk of these instruments is detailed.

As part of the process of managing the Group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Estimated change to profit or loss as a result of increase/(decrease) in market interest rate

	2019: Audited R	2018: Reviewed R
An increase or decrease in the market interest rates of 1% (100 basis points) would increase/(decrease) profit before tax by:	1 276 973	1 415 877

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments.

(ii) Foreign currency risk

The Group is exposed to foreign currency risk from transactions and translations and forward exchange contracts. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency. Translation exposure arises where affiliated companies have a functional currency other than the rand.

The Group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments may be used in certain instances to reduce risks arising from foreign currency fluctuations.

In the current year the Group incurred a foreign exchange loss of R1.9 million (2018: R2.8 million).

Foreign currency sensitivity analysis

The group has used a sensitivity analysis technique that measures the estimated change to profit or loss, related to its transaction exposure, of an instantaneous 10% strengthening or weakening in the rand against all other currencies, from the rate applicable at 31 May 2019, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

			(Decrease)/increase in profit before tax	
Net exposure to foreign currencies Denominated: Functional currency	**Net assets/ (liabilities) denominated in foreign currency R**	**Change in exchange rate %**	**Weakening in functional currency R**	**Strengthening in functional currency R**
2019: Audited				
USD:ZAR	9 991 284	10	(999 128)	999 128
USD:MUR	(76 186 469)	10	7 618 647	(7 618 647)
BWP:ZAR	36 257 450	10	(3 625 745)	3 625 745
	(29 937 735)		2 993 774	(2 993 774)
2018: Reviewed				
USD:ZAR	(9 914 783)	10	991 478	(991 478)
USD:MUR	(20 863 060)	10	2 086 306	(2 086 306)
BWP:ZAR	36 058 533	10	(3 605 853)	3 605 853
	5 280 690		(528 069)	528 069

3.4 Capital adequacy risk

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

In order to maintain or adjust this capital structure, the Company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt. The Group defines capital as capital and reserves and non-current borrowings. The Group is not subject to externally imposed capital requirements.

There were no changes to the Group's approach to capital management during the year.

3.5 Financial assets

3.5.1 Loans receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. For details related to the ECLs refer to note 3.1.

	2019: Audited R	**2018: Reviewed R**
Interest-bearing loans receivable	111 528 413	116 700 189
Less: Provision for Impairment		(2 009 848)
	111 528 413	114 690 341

Loan receivable in 2018 represents a treasury and working capital facility to the Prepaid Company with interest payable at 18.5% as well as treasury and working capital facility with Comm Equipment Company Proprietary Limited receivable on demand.

Loan receivable in 2019 represents a treasury and working capital facility to Mopstyle Investments (Pty) Ltd with interest payable at prime + 3%, repayable on demand. The ECL impact was considered to be immaterial.

3.5.2 Trade and other receivables

Trade receivables comprise receivables that are due from customers which arise from transactions for the sale of goods. Trade receivables are primarily accounted for at amortised cost, in accordance with the accounting policies of the Group. Sundry receivables are accounted for at amortised cost in accordance with the accounting policies of the Group. For details related to the ECLs refer to note 3.1. Receivables for prepayments and VAT are stated at their nominal values.

The carrying value of trade receivables approximates fair value. The fair value does not differ substantially from the carrying value of trade receivables.

The following table provides an analysis of the Group's trade and other receivables, including an analysis of trade receivables by originating transaction type as well as by counterparty:

Current

	2019: Audited R	**2018: Reviewed R**
Trade receivables arising on revenue from contracts with customers	368 738 283	256 413 404
Independent and Informal retail customers	98 316 627	39 174 529
Formal market retail customers	138 628 647	60 668 631
Edcon	34 036 095	65 816 623
Other Cellular Networks	30 807 037	20 167 603
Comm Equipment Company	36 433 941	39 964 079
Associates	30 515 937	30 621 939
Less: Provision for Impairment	(22 471 688)	(22 656 741)
Net Trade receivables	346 266 595	233 756 663
Net Sundry Debtors*	49 423 083	28,577 648
Deposits	299 787	314 669
Prepayments	593 934	404 350
VAT	31 196 833	6 835 899
	427 780 233	269 889 229

** Sundry debtors includes a balance of R41 984 277 and R23 644 092 in 2019 and 2018 respectively which consists of upfront payments to creditors which will be applied to future purchases of inventory.*

3.5.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and bank overdrafts.

	2019: Audited R	2018: Reviewed R
Cash at bank	26 542 185	26 762 574
Cash on hand	76 338	134 762
	26 618 522	26 897 336
Bank overdraft	(7 812 071)	–
	18 806 451	26 897 336

Bank overdraft represents working capital facility in place in Three G Mobile (Mauritius) Limited.

Refer to note 3 for the reconciliation of financial assets and non-financial assets:

3.5.4 Reconciliation of financial assets and non-financial assets:

	2019: Audited			2018: Reviewed		
	Total R	Financial asset R	Non-financial asset R	Total R	Financial asset R	Non-financial asset R
Loans receivable	111 528 413	111 528 413	–	114 690 341	114 690 341	–
Trade and other receivables	427 780 233	395 689 678	32 090 555	269 889 229	262 334 311	7 554 918
Financial assets at fair value through profit and loss	4 051 083	4 051 083	–	624 075	624 075	–
Cash and cash equivalents	26 618 522	26 618 522	–	26 897 336	26 897 336	–
	569 978 251	537 887 696	32 090 555	412 100 981	404 546 063	7 554 918

3.6 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Refer to accounting policies on loan and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT).

3.6.1 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

The fair value of trade payables approximates and does not differ substantially from the carrying value of trade payables.

	2019: Audited R	2018: Reviewed R
Trade payables	420 046 314	157 577 909
Accruals	3 583 492	3 649 200
Employee benefits	11 188 177	6 994 812
	434 817 983	168 221 921

3.6.2 Borrowings

Loans payable are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. These liabilities are included in current liabilities, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current liabilities.

	2019: Audited R	**2018: Reviewed R**
Interest-bearing loans payable	2 637 535	–
Interest-bearing borrowings	271 016	337 033
Preference share capital	–	11 733 776
	2 908 551	12 070 809

All loans payable are unsecured. Interest-bearing loans. Interest bearing loans payable in 2019 represents treasury and working capital facility owing to Comm Equipment Company Proprietary Limited payable on demand bearing interest at WACC 1.15%.

The carrying amount of loans payable and borrowings approximate their fair value.

Interest-bearing borrowings represent motor vehicles under finance leases. It is group policy to lease certain motor vehicles under finance leases. The average lease term is 5 years and the average effective borrowing rate is 8.75%. The group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The preference shares are redeemable on 31 August 2020. The cumulative preferential cash dividend is payable at a rate of 1.25% of the total enterprise value, less interest bearing liabilities of the group, less new equity contributions, plus cash and cash equivalents of the group, less R1 billion. Dividend is payable on an exit event, including but not limited to the disposal of a material part of the business, change of control event or permitted sale. Dividends were paid in June 2018

Refer to note 3 for the reconciliation of financial liabilities and non-financial liabilities

3.7 Financial instruments at fair value through profit or loss

	Investment in Blue Label R	**Forward exchange contracts R**	**Total R**
Opening balance – 1 June 2018	–	624 075	624 075
Additions	3 523 591		3 523 591
Fair value gain/(loss) recognised in profit or loss	(1 663 371)	1 566 788	(96 583)
Closing balance – 31 May 2019	1 860 220	2 190 863	4 051 083
Financial assets at fair value through profit and loss	1 860 220	2 190 862	4 051 083
Financial liabilities at fair value through profit and loss	–	–	–
Closing balance - 31 May 2019	1 860 220	2 190 862	4 051 082
Unrealised gains / (Losses)	(1 663 371)	1 566 788	(96 583)

Investment in Blue Label relates to shares acquired to settle equity compensation benefits with employees.

Refer to note 5.1 for further detail.

Blue Label Telecoms shares will be a level 1 fair value disclosure.

Forward exchange contracts will be a level 2 fair value disclosure.

Fair value gains and losses are recognised in impairments and fair value losses.

4. NON-FINANCIAL INSTRUMENTS

Non-financial instruments comprise:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Inventories
- Provisions

Impairment of non-financial assets

The Group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

An impairment loss is recognised in the income statement when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than inventories, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the income statement in the same line item as the original impairment charge.

4.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the Group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of associates and is included in "investments in associates".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

	2019: Audited R	2018: Reviewed R
Year ended 31 May		
Opening carrying amount	43 478 699	45 511 110
FCTR on goodwill	3 733 514	(2 032 411)
Closing carrying amount	47 212 213	43 478 699
At 31 May		
Cost	47 212 213	43 478 699

The cash-generating units to which goodwill is allocated are presented below:

	2019: Audited R	2018: Reviewed R
3G Mobile Proprietary Limited	47 212 213	43 478 699

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions used for the value-in-use calculations are as follows:

	2019: Audited		2018: Reviewed	
	Terminal growth rate %	Discount rate %	Terminal growth rate %	Discount rate %
3G Mobile	5.50	19.50	5.50	20.40

The discount rates used are pre-tax and reflect specific risks relating to the company. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the cash-generating units operate. The discount rates used for the prior year were adjusted to reflect the Group's target debt equity ratio. This did not give rise to any impairments in the prior period.

The impact of an increase or decrease of 1% to the discount rate used was considered, the result of which demonstrated that sufficient headroom is available on the valuation of the group with no resultant impact on impairment.

4.2 Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three years).

Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

(b) Customer relationships

Customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – Business Combinations and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 20 years).

	Customer relationships R	Computer software R	Total R
Year ended 31 May 2019: Audited			
Opening carrying amount	92 331 952	3 125 622	95 457 574
Amortisation charge	(10 072 577)	(998 171)	(11 070 748)
Translation difference	–	3 846	3 846
Closing carrying amount	82 259 375	2 131 297	84 390 672
At 31 May 2019: Audited			
Cost	96 528 859	5 694 966	102 223 825
Accumulated amortisation	(14 269 484)	(3 563 670)	(17 833 154)
Carrying amount	82 259 375	2 131 297	84 390 672
Year ended 31 May 2018: Reviewed			
Opening carrying amount	96 528 859	3 504 359	100 033 218
Amortisation charge	(4 196 907)	(375 340)	(4 572 247)
Translation difference	–	(3 397)	(3 397)
Closing carrying amount	92 331 952	3 125 622	95 457 574
At 31 May 2018: Reviewed			
Cost	96 528 859	5 694 966	102 223 825
Accumulated amortisation	(4 196 907)	(2 569 344)	(6 766 252)
Carrying amount	92 331 952	3 125 622	95 457 574

4.3 **Property, plant and equipment**

Property, plant and equipment is initially recorded at historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Property, plant and equipment is subsequently carried at historical cost less accumulated depreciation and any accumulated impairment losses.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at year-end. Where the assets' residual value is higher than the carrying value, no depreciation is provided.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Computer equipment	25% – 33.3%
Furniture, fittings and office equipment	16.67% – 25%
Motor vehicles	20% – 25%
Leasehold improvements	20%-50%
Plant and machinery	20%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful lives.

	Computer equipment R	Furniture and fittings R	Motor vehicles R	Office equipment R	Leasehold improve-ments R	Plant and machinery R	Total R
Year ended 31 May 2019: Audited							
Opening carrying amount	838 696	2 195 338	2 326 088	580 953	541 073	156 236	6 638 384
Additions	249 718	163 290	274 537	15 378	756 911	36 694	1 496 527
Disposals	2	–	–	–	(198 985)	–	(198 983)
Depreciation charge	(485 504)	(854 033)	(465 641)	(140 451)	(352 918)	(29 828)	(2 328 375)
Translation difference	(3 290)	7 795	73 494	6 785	859 705	957	945 445
Closing carrying amount	599 621	1 512 389	2 208 478	462 665	1 605 787	164 059	6 552 999
At 31 May 2019: Audited							
Cost	3 383 541	4 796 895	4 439 720	768 986	3 890 516	344 573	17 624 230
Accumulated depreciation	(2 783 919)	(3 284 505)	(2 231 242)	(306 321)	(2 284 729)	(180 514)	(11 071 230)
Carrying amount	599 621	1 512 389	2 208 478	462 665	1 605 787	164 059	6 552 999
Year ended 31 May 2018: Reviewed							
Opening carrying amount	1 149 276	2 759 946	2 161 126	614 919	678 011	158 067	7 521 345
Additions	75 046	25 759	315 640	7 500	145 428	–	569 373
Depreciation charge	(366 987)	(586 211)	(79 188)	(39 701)	(269 224)	(13 788)	(1 355 098)
Translation difference	(18 639)	(4 156)	(71 490)	(1 765)	(13 142)	11 957	(97 236)
Closing carrying amount	838 696	2 195 338	2 326 088	580 953	541 073	156 236	6 638 384
At 31 May 2018: Reviewed							
Cost	3 084 185	4 632 674	4 033 857	806 301	2 510 206	292 729	15 359 952
Accumulated depreciation	(2 245 489)	(2 437 336)	(1 707 769)	(225 348)	(1 969 133)	(136 493)	(8 721 568)
Carrying amount	838 696	2 195 338	2 326 088	580 953	541 073	156 236	6 638 384

There are no property, plant and equipment assets that are encumbered.

4.4 Inventories

Inventories comprise handsets, tablets and other related products.

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable duties and transport that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale.

	2019: Audited R	2018: Reviewed R
Finished goods		
Handset, tablets and related products	297 884 613	109 239 108
Goods in transit	16 962 176	–
	314 846 789	109 239 108
Provision for inventory obsolescence	(15 985 579)	(10 406 004)
	298 861 210	98 833 104

4.5 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

	Warranty provision R	Total R
2019: Audited		
Opening balance	3 596 923	3 596 923
Additions	1 140 195	1 140 195
Closing carrying amount	4 737 118	4 737 118
2018: Reviewed		
Opening balance	3 596 923	3 596 923
Net Movements	–	–
Closing carrying amount	3 596 923	3 596 923

The warranty provision represents management's best estimate of the company's liability under product warranties granted on telecommunication products sold and is based on prior experience and industry averages for defective products.

5. EMPLOYEES

5.1 Equity compensation benefit

Blue Label operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of Blue Label. The awards are accounted for as cash settled within the subsidiary financial statements, including 3G Distribution. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the income statement with a corresponding adjustment to equity.

During the year forfeitable shares were granted to Executive Directors and qualifying employees (participant). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the Board. In the event that the participant is not in the employ of the Group, or the performance conditions are not met, the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the Group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares.

The performance condition of the forfeitable shares for the eighth award vested on 31 August 2018 is as follows:

- 40% of the awards are allocated towards retention. In order to receive this portion of the allocation the employee is required to be employed within the Group at the vesting date.
- 60% of the awards are allocated on the basis of 50% for growth in core headline earnings per share and 10% for shareholder returns.

The 50% for growth in core headline earnings will be based on the following achievements:

- If growth is 5% above CPI over three years, 20% of the 50% will vest.
- If growth is 10% above CPI over three years, an additional 50% (i.e. a total of 70%) of the 50% will vest.
- If growth is 25% above CPI over three years, a further 30% (i.e. a total of 100%) of the 50% will vest.

The 50% for growth in core headline earnings in respect of the eighth awards was amended to include growth in core headline earnings at subsidiary level with regards to qualifying employees.

The 10% for shareholder return will be based on a 10% compounded growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

The performance condition for Executive Directors for the eleventh award grant vesting on 31 August 2021 is as follows:

- 33.33% for retention (three years from date of award); and
- 66.67% financial (33.34% for growth in core headline earnings per share and 33.33% based on shareholder returns).

The 33.34% for growth in core headline earnings per share is based on the following achievements:

- If growth is 5% above CPI compounded annually over three years, then 20% of the 33.33% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 33.33% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 33.33% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The 33.33% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

The performance condition for senior managers for the eleventh award grant vesting on 31 August 2021 is as follows:

- 40% for retention (three years from date of award); and
- 60% financial (30% for growth in core headline earnings per share and 30% based on shareholder returns).

The 30% for growth in core headline earnings per share is based on the following achievements:

- If growth is 5% above CPI compounded annually over three years, then 20% of the 30% will vest.
- If growth is 10% above CPI compounded annually over three years, then an additional 50% (i.e. a total of 70%) of the 30% would vest. If growth is between 5% and 10% above CPI over the three years then the additional 50% will be reduced on a pro-rata basis.
- If growth is 25% above CPI compounded annually over three years, then a further 30% (i.e. a total of 100%) of the 30% will vest. If growth is between 10% and 25% above CPI over the three years then the additional 30% will be reduced on a pro-rata basis.

The performance criteria for senior managers will be measured at subsidiary level.

The 30% for shareholder return is based on a 10% compounded growth in the share price over the three-year vesting period, measured with reference to the weighted average price per share during the month of the commencement of the allocation plus dividends over the three-year period against the weighted average share price for the month during which the vesting takes place.

Critical accounting estimates and assumptions

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares
Granted during the year			
Eleventh award	3 September 2018	3 September 2021	492 122
At 31 May 2019: Audited			
Eleventh award	3 September 2018	3 September 2021	492 122

Refer to note 5.2 for the expense recognised in the income statement relating to the equity compensation benefits.

The fair value of the cash-settled awards is based on the open market closing price at grant date and is remeasured to the open market closing price at period-end.

The total share-based payment liability that has accrued to date with regards to the share incentive scheme is as follows:

	2019: Audited R	2018: Reviewed R
Share-based payment liability	465 055	–

5.2 Equity compensation and benefit expense

(a) Bonus plans

The Group recognises a liability and an expense for bonuses. A liability is recognised where the Group is contractually obliged or where there is a past practice that has created a constructive obligation.

The bonus expense is determined based on overall Group performance and other non-financial measures.

In terms of the Group remuneration policy senior Management may earn up to 50% of their annualised fixed salary package.

	2019: Audited R	2018: Reviewed R
Salaries and wages	34 887 382	15 223 865
Bonuses	9 934 079	2 939 401
	44 821 461	18 163 267

Average number of employees for the year was 120 in both 2018 and 2019.

6. TAXATION

6.1 Income tax expense

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year-end in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

Uncertain tax positions are considered by the Group at the level of the individual uncertainty or group of related uncertainties.

Critical accounting estimates and assumptions

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable income is estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

	2019: Audited R	2018: Reviewed R
Current tax	28 005 674	6 535 820
Current year	28 005 674	6 535 820
Deferred tax	(4 790 064)	(1 902 674)
Current year	(4 562 153)	(1 902 674)
Adjustment in respect of prior years	(227 911)	–
	23 215 610	4 633 147
Profit before tax	87 370 452	14 037 673
Tax at 28%	24 463 727	3 930 548
Share of (losses)/gains from associates	95 341	(158 786)
Other income not subject to tax	(679 505)	–
Other expenses not deductible for tax purposes	868 562	861 384
Effect of different tax dispensations	(1 532 515)	–
Tax charge	23 215 610	4 633 147
Effective rate (%)	27%	33%

6.2 Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by year-end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Critical accounting estimates and assumptions

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	Capital allowances R	Provisions* R	Tax losses R	Other R	Total R
At 31 December 2017 as previously stated	28 044 513	(2 958 217)	(200 662)		24 885 634
Adjustment on the initial application of IFRS 9		(2 522 545)			(2 522 545)
At 31 December 2017 adjusted	28 044 513	(5 480 762)	(200 662)	–	(22 363 089
Charged/(credited) to the income statement	(1 056 321)		(846 501)		(1 902 822)
At 31 May 2018: Reviewed	26 988 192	(6 327 263)	(200 662)		(20 460 267)
Charged/(credited) to the income statement	(2 714 783)	(2 787 986)	200 662	739 954	(4 562 153)
At 31 May 2019: Audited	24 273 409	(9 115 249)	–	739 954	15 898 114

** The provision above includes deferred tax entries relating to IFRS 9 impairment provisions*

	2019 Audited R	2018 Reviewed R
Deferred tax asset comprises:		
Provisions	(9 115 249)	(6 327 263)
Tax losses	–	(200 662)
Total deferred tax asset	(9 115 249)	(6 527 925)
Deferred tax liability comprises:		
Capital allowances	24 273 409	26 988 192
Other	739 954	–
Total deferred tax liability	25 013 363	26 988 192
Net deferred tax	15 898 114	20 460 267
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax assets to be recovered within 12 months	(9 115 249)	(6 527 925)
Deferred tax assets to be recovered after more than 12 months	–	–
Net deferred tax asset	(9 115 249)	(6 527 925)
Deferred tax liabilities to be recovered after more than 12 months	24 273 409	26 988 192
Deferred tax liabilities to be recovered within 12 months	739 954	–
Net deferred tax liability	25 013 363	26 988 192
Net deferred tax	15 898 114	20 460 267

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of R368 028 in respect of losses amounting to R1 051 508 that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the Group's equity accounted associates and joint ventures and therefore no deferred tax has been raised in this regard.

7. RELATED PARTIES

Transactions and balances with related parties:

	2019: Audited R	2018: Reviewed R	2019: Audited R	2018: Reviewed R
	Sales to related parties		**Purchases from related parties**	
Blue Label Connect	3 939 347	–	–	–
Blue Label Distribution	1 108 146	–	–	–
Reware	464 050	–	3 002 750	1 552 852
Wiconnect	15 257 499	–	–	–
3G Mobile (Botswana) Proprietary Limited	9 931 137	13 162 368	351 750	2 199 571
The Prepaid Company	–	–	1 714 161	445 474
Robtronics	–	–	16 169	43 100
Discovery Insure	–	2 584 164	–	–
CEC	490 151 733	160 048 936	6 357 690	8 279 110
	520 851 912	175 795 468	11 442 521	12 520 107
	Other income received from related parties		**Other expenses paid to related parties**	
The Prepaid Company	1 894 754	3 959 540	–	–
CEC	–	1 324 514	2 143 716	–
The Grill House	–	–	–	37 800
	1 894 754	5 284 054	2 143 716	37 800
	Loans to related parties		**Loans from related parties**	
CEC	–	22 740 649	2 637 535	–
The Prepaid Company	–	93 959 540	–	–
Mopstyle Investments (Proprietary) Limited	111 528 413	–	–	–
	111 528 413	116 700 189	2 637 535	–
	Refer to note 3.5	Refer to note 3.5	Refer to note 3.5	
	Amounts due from related parties included in trade receivables		**Amounts due to related parties included in trade payables**	
Blue Label Connect	3 642 737	–	–	–
Blue Label Distribution	262 876	–	–	–
Reware	3 660	–	1 989 893	212 603
Wiconnect	6 151 621	–	–	–
3G Mobile (Botswana) Proprietary Limited	22 802 139	–	136 419	30 798 534
The Prepaid Company	–	–	50 960	–
CEC	36 433 941	39 964 079	12 374 850	1 203 797
Discovery Insure	–	259 474	–	–
	69 296 973	39 704 605	14 552 122	32 214 934

8. UNRECOGNISED ITEMS

8.1 Commitments

Future operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements.

The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

The Group is required to give six months' notice for the termination of the majority of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 1.3.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2019: Audited R	2018: Reviewed R
Premises		
Payable within one year	899 107	1 518 307
Payable in two to five years	1 845 902	2 745 009
	2 745 009	4 263 316

8.2 Subsequent events

Post-year-end, the Group acquired the remaining 50% shares in 3G Mobile Botswana (Pty) Ltd for P4 500 000.

Post-year-end, TPC entered into an agreement to dispose of its 100% shareholding in 3G Mobile (excluding CEC) to DNI 4PL Contracts Proprietary Limited, for a purchase consideration of R544 million. The purchase price will be paid in cash. The above proceeds received will be applied to reduce interest-bearing debt.

9. ACCOUNTING FRAMEWORK

9.1 Standards, amendments and interpretations not yet effective

At the date of authorisation of this Combined Carve-Out Historical Financial Information, the following relevant standards, amendments, and interpretations to existing standards were in issue but not yet effective. These will apply to the Group's accounting periods beginning on 1 June 2019 or later periods and have not been elected to be early adopted by the Group.

The salient features of those standards, amendments, and interpretations have been described below.

Standard	Description of change	Management actions and assessed impact	Effective date – Accounting periods beginning on or after
IFRS 16 – Leases	This IFRS sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor); – IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations; – IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. The lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. No significant changes have been included for lessors.	The Group has assessed the estimated impact that the initial application of IFRS 16 will have on its Group income statement, Group statement of financial position and Group statement of cash flows once adopted on 1 June 2019. In preparation for the adoption of IFRS 16 the following actions have been undertaken: – Management have provided formal training programmes relating to IFRS 16 to all employees involved in the supervision of the finance function. – As part of the training programme, a workshop session was held to identify business units where IFRS 16 may have an impact. – Assessment questionnaires were completed for each business unit to identify leasing arrangements of significance to the Group. – The results of the work undertaken thus far have indicated that the Group is not a lessee of significance across the majority of its operations. The Group does not engage in any leasing activities as a lessor. – The Group is continuing to assess the impact of the accounting changes that will arise under IFRS 16 and does not believe that the impact will be material to the Group. – The Group plans to apply IFRS 16 initially on 1 June 2019, using the modified retrospective approach applying the practical expedients of IFRS 16. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 June 2019, with no restatement of comparative information; – The Group will elect to recognise the right-of-use assets at an amount equal to the lease liability at 1 June 2019.	1 January 2019

The following standards/ amendments/ interpretations are not anticipated to have a material impact on the Group, and are effective for annual periods beginning on 1 June 2019:

Standard(s) Amendment(s) Interpretation(s)	**Description of change**	**Effective date – Accounting periods beginning on or after**
Annual improvements 2015-2017 cycle	The annual improvements project is a collection of amendments to various IFRS standards and is the result of conclusions reached by the IASB on proposals made at its annual improvement project; and the interpretation will not have a material impact on the Group.	1 June 2019
New Interpretation – IFRIC 23 Uncertainty over Income Tax Treatments	– This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities; – IFRIC 23 specifically clarifies how to incorporate this uncertainty into the measurement of tax as reported in the consolidated financial statements; – IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected; and – The interpretation will not have a material impact on the Group.	1 June 2019
Amendments to IFRS 3 Business Combinations	These amendments make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments: – Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs; – Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and – Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments will not have a material impact on the Group.	1 June 2020
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework; – The revised definition of material is: – Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. – The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; and The amendments will not have a material impact on the Group.	1 June 2020

9.2 Other accounting policies

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Group financial statements are presented in South African rand (ZAR), which is the functional and presentation currency of the parent company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in operating profit.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate as at statement of financial position date;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of loans and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Dividend tax

Dividend tax is provided for at 20% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which they are approved by the shareholders.

Distributions of non-cash assets received from subsidiary companies are recognised as a dividend at the fair value of the non-cash assets received.

9.3 Change in accounting policy from January 2018

9.3.1 IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces both IAS 11 and IAS 18 as well as SIC 31, IFRIC 13, IFRIC 15 and IFRIC 18 and establishes a comprehensive framework for recognition of revenue from contracts with customers. Revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires a certain level of judgement.

IFRS 15 transition

The Group has applied IFRS 15 'Revenue from Contracts with Customers' using the modified retrospective approach by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018.

In accordance with the requirements of applying the modified retrospective approach under IFRS 15, the application of IFRS 15 will have no material impact on the group and no adjustment was made to the opening retained earnings.

9.3.2 IFRS 9 'Financial Instruments'

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement of financial assets

The adoption of IFRS 9 has not had a material impact on the Group's accounting policies related to the classification and measurement of financial assets, financial liabilities and derivative financial instruments. The following table demonstrates the measurement category of financial instruments under IAS 39 and IFRS 9:

	IAS 39	**IFRS 9**
Trade and other receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Loans receivable	Loans and receivables	Amortised cost
Financial assets at fair value through profit and loss	Fair value through profit and loss	Fair value through profit and loss
Interest-bearing borrowings	Amortised cost	Amortised cost
Trade and other payables	Amortised cost	Amortised cost
Bank overdraft	Amortised cost	Amortised cost
Financial liabilities at fair value through profit and loss	Fair value through profit and loss	Fair value through profit and loss

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The group has three types of financial assets that are subject to the new ECL model:
• trade receivables
• loans receivable
• cash and cash equivalents (immaterial impairment loss identified)

The group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the group's retained earnings is disclosed below.

Trade receivables	**R**
Opening retained income adjusted	12 012 117
Income statement adjustment	230 729
	12 242 846

The group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period.

Loans receivable

The group applies the IFRS 9 general approach to measuring expected credit losses which uses a 12-month expected loss allowance for all loans receivables. ECLs are calculated by applying a loss ratio to the balance of each loan at each reporting date. The loss ratio for loans is calculated according to the ageing/payment profile of loans by applying historic write-offs to the payment profile of the loan population. The historic loss ratio is then adjusted for forward looking information to determine the ECL for each loan at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL. To calculate an ECL, management allocates a risk rating to each loan. The risk rating is assigned an average cumulative default rate, based on management assessing market related default rates for emerging markets. This rate is added to the historical loss ratio to determine the ECL of the relevant loan.

Critical accounting judgements and assumptions

The ECL for financial assets is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the input to the impairment calculation, based on the Group's past history, existing market conditions, as well as forward looking estimates at the end of each reporting period.

IFRS 9 transition

The Group has applied IFRS 9 'Financial Instruments' using the modified retrospective approach, by recognising the cumulative effect of initially applying IFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Therefore the comparative information on the unaudited condensed group statement of financial position and unaudited condensed group statement of comprehensive income has not been restated for the adoption of these new standards and continues to be reported under the previously applied standards.

In accordance with the requirements of applying the modified retrospective approach under IFRS 9, the Group statement of financial position as at 31 May 2018 has been presented with the changes in the carrying amounts on 1 January 2018 arising from the change in measurement attribute on transition to IFRS 9.

SPECIAL PURPOSE COMBINED HISTORICAL FINANCIAL INFORMATION OF 3G DISTRIBUTION FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

Combined Statement of Financial Position as at 31 December 2017

		Group	
		2017	2016
	Notes	R	R
ASSETS			
Non-Current Assets			
Property, plant and equipment	6	7 209 070	10 611 799
Goodwill	7	36 141 235	38 006 149
Intangible assets	8	3 542 947	4 316 692
Investment in associate	33	781 306	–
Deferred tax	9	2 134 446	4 315 188
		49 809 004	57 249 828
Current Assets			
Inventories	11	79 483 931	179 615 940
Loan to Comm Equipment Company (Pty) Ltd	34	24 474 078	–
Loans to shareholders	12	2	2
Trade and other receivables	10	297 180 403	408 653 090
Current tax receivable		5 048 022	4 556 407
Cash and cash equivalents	13	111 829 364	81 450 227
		518 015 800	674 275 666
Total Assets		567 824 804	731 525 494
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of Parent			
Foreign currency translation reserve		(6 541 956)	(614 339)
Reserves		382 820 662	370 357 943
		376 278 706	369 743 604
Non-controlling interest		6 980	20 635
		376 285 686	369 764 239
Liabilities			
Non-Current Liabilities			
Finance lease liabilities	14	283 004	388 558
Current Liabilities			
Trade and other payables	15	184 781 188	306 410 069
Loan from Comm Equipment Company (Pty) Ltd	34	–	40 000 000
Finance lease liabilities	14	103 425	86 112
Current tax payable		2 616 914	1 194 524
Provisions	16	3 596 923	7 052 351
Derivative financial instruments	17	157 664	6 629 641
		191 256 114	361 372 697
Total Liabilities		191 539 118	361 761 255
Total Equity and Liabilities		567 824 804	731 525 494

Combined Statement of Profit or Loss and Other Comprehensive Income

		Group	
		2017	2016
	Notes	R	R
Revenue	18	1 608 671 497	2 230 147 327
Cost of sales	19	(1 497 236 206)	(2 071 268 932)
Gross profit		111 435 291	158 878 395
Other income	20	1 796 766	4 900 470
Operating expenses		(33 879 362)	(55 439 724)
Depreciation and amortisation		(3 922 133)	(4 337 864)
Employee costs		(41 005 705)	(41 099 921)
Impairment of goodwill	7	–	(13 928 219)
Operating profit	21	34 424 857	48 973 137
Finance income	22	4 056 758	5 091 299
Income from equity accounted investments		781 306	–
Finance costs	23	(12 321 367)	(1 615 987)
Profit before taxation		26 941 554	52 448 449
Taxation	24	(14 502 490)	(18 180 980)
Profit for the year		12 439 064	34 267 469
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		(5 927 617)	(8 767 637)
Other comprehensive income for the year net of taxation		(5 927 617)	(8 767 637)
Total comprehensive income for the year		6 511 447	25 499 832
Profit attributable to:			
Owners of the parent		12 452 719	35 141 684
Non-controlling interest		(13 655)	(874 215)
		12 439 064	34 267 469
Total comprehensive income attributable to:			
Owners of the parent		6 525 102	26 374 047
Non-controlling interest		(13 655)	(874 215)
		6 511 447	25 499 832

Combined Statement of Changes in Equity

	Foreign currency translation reserve R	Reserves R	Total attributable to equity holders of the group R	Non–controlling interest R	Total equity R
Balance at 01 January 2016	8 153 298	335 216 259	–	956 133	956 133
Profit for the year	–	35 141 684	35 141 684	(874 215)	34 267 469
Sale of subsidiaries	–	–	–	(61 283)	(61 283)
Exchange differences on translating foreign operations	(8 767 637)	–	(8 767 637)	–	(8 767 637)
Total comprehensive income for the year	(8 767 637)	35 141 684	26 374 047	(935 498)	25 438 549
Balance at 01 January 2017	(614 339)	370 357 943	369 743 604	20 635	369 764 239
Profit for the year	–	12 452 719	12 452 719	(13 655)	12 439 064
Total comprehensive income for the year	–	12 452 719	12 452 719	(13 655)	12 439 064
Issue of preference share	–	10 000	10 000	–	10 000
Exchange differences on translating foreign operations	(5 927 617)	–	(5 927 617)	–	(5 927 617)
Issue of shares - ordinary shares	–	593 724 077	593 724 077	–	593 724 077
Shares re-purchased from the shareholders	–	(593 724 077)	(593 724 077)	–	(593 724 077)
Balance at 31 December 2017	(6 541 956)	382 820 662	376 278 706	6 980	376 286 686

Combined Statement of Cash Flows

	Notes	Group 2017 R	Group 2016 R
Cash flows from operating activities			
Cash generated from (used in) operations	25	130 369 273	(864 171)
Finance income		4 056 758	5 091 299
Finance costs		(12 321 367)	(1 615 987)
Tax paid	26	(13 887 518)	(22 567 339)
Net cash from operating activities		108 217 146	(19 956 198)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(457 809)	(6 330 626)
Proceeds on sale of property, plant and equipment		–	439 954
Purchase of intangible assets	8	(313 408)	(4 677 616)
Purchase on investment in subsidiary	35	(550 777)	–
Loss of control - subsidiary to associate	36	(11 842 366)	–
Proceeds from sale of investment in subsidiary	32	–	1 483 834
Net cash from investing activities		(13 164 360)	(9 084 454)
Cash flows from financing activities			
Proceeds on preference share issue		10 000	–
Loans (paid to)/ advanced by related parties		(64 474 077)	38 852 347
Loans advanced by shareholders		–	14 109
Finance lease receipts		–	474 670
Net cash from financing activities		(64 464 077)	39 341 037
Total cash, cash equivalents and bank overdrafts movement for the year		30 588 709	10 300 385
Cash, cash equivalents and bank overdrafts at the beginning of the year		81 450 227	77 173 465
Effect of exchange rate movement on cash balances		(209 572)	(6 023 623)
Total cash, cash equivalents and bank overdrafts at the end of the year	13	111 829 364	81 450 227

ACCOUNTING POLICIES

1. PRESENTATION OF COMBINED HISTORICAL FINANCIAL INFORMATION

The combined historical financial information have been prepared in accordance with International Financial Reporting Standards and the Companies Act of South Africa. The combined historical financial information have been prepared on the historical cost basis, except for certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in South African Rand.

Description of the business

The Combined Historical Financial Information of 3G Distribution consist of the handset and tablet distribution business of 3G Mobile, representing the activities, assets and liabilities of the underlying businesses. 3G Distribution was historically conducted through separate legal entities within the 3G Mobile Proprietary Limited group of companies. The combination of these operations is referred to as 3G Distribution in the Combined Historical Financial Information.

3G Distribution historically did not exist as a reporting group and no separate consolidated financial statements were therefore prepared for 3G Distribution. For the purpose of presenting the historical performance of 3G Distribution for the proposed disposal of 3G Distribution by Blue Label Telecoms Limited (BLT), 3G Distribution Combined Historical Financial Information for the years ended 31 December 2017 and 31 December 2016, have been prepared.

3G Mobile holds investments in Phone Fast, Three G International and Three G Mobile Namibia. 3G Mobile also has an equity investment in Comm Equipment Company (Pty) Ltd (CEC) which, together with its subsidiaries, provides handset financing predominately to customers of Cell C Limited. As part of the proposed transaction BLT will not dispose of its investment in CEC and CEC will continue to be held by the BLT group. 3G Mobile has historically provided loan financing to CEC; the loan financing will be excluded from the sale transaction and will continue to exist between BLT and CEC post the transaction.

As such, the reporting entity for the purposes of these Combined Historical Information comprises 3G Mobile Proprietary Limited (excluding 3G Mobile's equity investments in CEC and 3G Mobile's loan to CEC), Phone Fast, Three G International and Three G Mobile Namibia. The operations comprising 3G Distribution have historically for the reporting periods presented been under common control of 3G Mobile and common management and the economic activities of these entities will be legally bound together through the proposed transaction.

Basis of preparation

IFRS compliance

3G Distribution did not historically constitute a combined legal group. The Combined Historical Financial Information of 3G Distribution is prepared by aggregating the historical financial information of the entities listed above as at and for the years ended 31 December 2017 and 31 December 2016 (the Reporting Periods).

The Combined Historical Financial Information of 3G Distribution is presented in accordance with, and complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and effective at the time of preparing the Combined Historical Financial Information of 3G Mobile Distribution, the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the JSE Listings Requirements.

The Combined Historical Financial Information is prepared using the historical cost basis apart from certain financial instruments (including derivative instruments and equity investments).

IFRS do not specifically provide guidance for the preparation of Combined Historical Financial Information, and accordingly in preparing the Combined Historical Financial Information, certain accounting conventions commonly used in the preparation of Combined Historical Financial Information for inclusion in circulars, have been applied in accordance with IAS 8, which are discussed in more detail below. The Combined Historical Financial Information has consequently been prepared as a combination of the historic financial information recognised in the 3G Mobile consolidated financial statements related to 3G Distribution (predecessor accounting).

The Combined Historical Financial Information for the years ended 31 December 2017 and 31 December 2016, has been prepared for the purpose of presenting, as far as practically possible, the financial position, results of operations and cash flows of 3G Distribution on a standalone basis.

The Combined Historical Financial Information is presented in South African Rand (ZAR).

The Combined Historical Financial Information was authorised for issue by the board of directors of Blue Label Telecoms on 25 October 2019. Separate company historical financial information has not been prepared due to 3G Distribution not constituting a combined legal group for the historical reporting periods.

Limitations inherent to Combined Historical Financial Information

As the Combined Historical Financial Information of 3G Distribution has been prepared on a combined basis, they may not be indicative of the future performance of 3G Distribution and do not necessarily reflect what its results of operations, financial position and cash flows would have been had 3G Distribution operated as an independent entity during the periods presented.

Basis of combination

The following principles were applied in the preparation of the Combined Historical Financial Information:

Equity

Share capital and earnings per share – As 3G Distribution did not historically constitute a combined legal group there is no issued share capital. The information on earnings per share for 3G Distribution pursuant to IAS 33 has not been presented, as no capital structure has been presented in the Combined Historical Financial Information.

Reserves – This reserve represents the aggregated combined share capital and retained earnings of the entities included in the Combined Historical Financial Information of 3G Distribution at the earliest comparative period presented, adjusted for 3G Mobile's investment in and loan to CEC and loans to shareholders.

Other reserves – Other reserves have been separately presented and comprise the aggregated foreign currency translation reserves of the entities included in the Combined Historical Financial Information of 3G Distribution. This category of equity has been separately presented because it will be recycled to profit and loss in future periods.

Allocation of central costs

3G Mobile has historically performed all of its own management and corporate functions. Accordingly, all corporate expenses (including payroll, finance, legal, rent etc.) and management fees have been historically recognised in the statutory financial statements of the entities comprising 3G Distribution. No further allocation of central costs has therefore been made.

CEC has operated independently from 3G Mobile and has been under separate management. All management and corporate functions related to CEC have historically been recognised in the statutory financial statements of CEC and its subsidiaries and therefore no central costs need to be allocated out of 3G Mobile to CEC.

Taxation

The entities that comprise 3G Distribution have historically filed separate tax returns in the countries where these legal entities are tax resident. The income taxes have been accounted for using the separate tax return method by aggregating the tax positions of the individual entities of 3G Distribution.

Goodwill and intangible assets

The goodwill included in the Combined Historical Financial Information are those that arose when 3G Mobile acquired control of certain entities within 3G Distribution. During the Reporting Periods presented, goodwill was tested for impairment for identified cash generating unit being the cash-generating units used at that time by 3G Mobile to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for 3G Distribution.

Intercompany and related party transactions and balances

Transactions and balances with Group companies, including CEC and its subsidiaries, have been disclosed as related party transactions and balances in the Combined Historical Financial Information. All intergroup transactions, balances and unrealised gains and losses on transactions between entities comprising 3G Distribution are eliminated.

Directors' remuneration has been excluded due to 3G Distribution not constituting a combined legal group for the historical Reporting Periods and not having a separate Board of Directors.

Segments

Segment reporting has not been included in the Combined Historical Financial Information because 3G Distributions' equity and debt instruments are not currently, or planned in the future to be, traded in a public market.

Subsequent events

The 3G Mobile consolidated financial statements, from which these Combined Historical Financial Information was derived, were authorised for issue on 11 June 2018. Subsequent events have been considered from 31 December 2017 up to the date that these Combined Historical Financial Information were authorised for issuance.

1.1 Combination

Basis of combination

The consolidated combined historical financial information incorporate the combined historical financial information of 3G Distribution and all investees which are controlled by 3G Distribution.

3G Distribution has control of an investee when it has power over the investee; it is exposed to or has rights to variable returns from involvement with the investee; and it has the ability to use its power over the investee to affect the amount of the investor's returns.

The results of subsidiaries are included in the consolidated combined historical financial information from the effective date of acquisition to the effective date of disposal.

Adjustments are made when necessary to the combined historical financial information of subsidiaries to bring their accounting policies in line with those of 3G Distribution.

All intra-3G Distribution transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified and recognised separately from 3G Distribution's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

Transactions which result in changes in ownership levels, where 3G Distribution has control of the subsidiary both before and after the transaction are regarded as equity transaction and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

Business combinations

3G Distribution accounts for business combinations using the acquisition method of accounting. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the business combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal 3G Distribution) that are classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, 3G Distribution assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for 3G Distribution purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interests arising from a business combination, which are present ownership interests, and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation, are measured either at the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The treatment is not an accounting policy choice but is selected for each individual business combination, and disclosed in the note for business combinations. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRS's.

In cases where 3G Distribution held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in profit or loss for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other comprehensive income and accumulated in equity are recognised in profit or loss as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of 3G Distribution at the end of each reporting period with the adjustment recognised in equity through to other comprehensive income.

Investment in associates

An associate is an entity over which 3G Distribution has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in associate is accounted for using the equity method, except when the investment is classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost adjusted for post-acquisition changes in 3G Distribution's share of net assets of the associate, less any impairment losses.

Losses in an associate in excess of 3G Distribution's interest in that associate are recognised only to the extent that 3G Distribution has incurred a legal or constructive obligation to make payments on behalf of the associate.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in profit or loss.

Profits or losses on transactions between 3G Distribution and an associate are eliminated to the extent of 3G Distribution's interest therein.

When 3G Distribution reduces its level of significant influence or loses significant influence, 3G Distribution proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the combined historical financial information, management is required to make estimates and assumptions that affect the amounts represented in the combined historical financial information and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the combined historical financial information. Significant judgements include:

Trade and other receivables and loans and receivables

3G Distribution assesses its advances to customers and trade and other receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, 3G Distribution makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete inventory

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the key assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

3G Distribution reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of economic factors.

Provisions for warranties

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Loss of control – subsidiary to associate

3G Distribution has applied significant judgement to come to the conclusion that they no longer control 3G Mobile (Botswana) (Pty) Ltd (3G Botswana) but still have significant influence over the entity. These judgements include:

The 3G Botswana board currently constitutes 3 directors, none of whom represent 3G Distribution, nor have any current allegiance to the group,

No shareholders' agreement exists between the outside 3G Botswana shareholder and 3G Distribution.

The 3G Botswana's country manager reports to 3G Distribution weekly and 3G Distribution has the casting vote for any of the operational decisions taken at these meetings which constitutes significant influence.

Thus, as 3G Distribution has no governance level representation, but has operational decision making influence it has been concluded that control over 3G Botswana has been lost. However 3G Distribution still exercises significant influence over the entity.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 3G Distribution recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3G Distribution recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires 3G Distribution to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of 3G Distribution to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Residual values and useful lives of assets

Residual values and useful lives of tangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on the historical experience and expectations of the manner in which the assets are to be used, together with the expected proceeds likely to be realised when the assets are disposed at the end of their useful lives. Such expectations could change over time and, therefore, impact both the depreciation charges and carrying values of tangible assets in the future.

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Leasehold improvements	Shorter of useful life or lease term
Plant and machinery	5 years
Furniture and fixtures	5 – 10 years
Motor vehicles	4 – 5 years
Office equipment	6 years
Computer equipment	3 years
Security System	6 years
Capital work in progress	Not depreciated

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

Leasehold improvements are capitalised only when it is probable that future economic benefits associated with the item will flow to the company, otherwise they are expensed.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.4 Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the net fair value of the net identifiable assets, liabilities and contingent liabilities of the business acquired and the fair value of the non-controlling interest in the business acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

1.5 Intangible assets

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

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 – 6 years
Licences	4 years

1.6 Interests in subsidiaries

Group financial statements

In the group's separate financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by 3G Distribution; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.7 Financial instruments

Classification

3G Distribution classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities at fair value through profit and loss
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Initial recognition and measurement

Financial instruments are recognised initially when 3G Distribution becomes a party to the contractual provisions of the instruments.

3G Distribution classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired.

Translation differences on monetary items are recognised in profit or loss, while translation differences on non-monetary items are recognised in other comprehensive income and accumulated equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and 3G Distribution has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

At each reporting date 3G Distribution assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to 3G Distribution, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Derivatives that do not qualify for hedge accounting

Derivative financial instruments that do not qualify for hedge accounting, consisting of foreign exchange contracts, are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Changes in the fair value of derivative financial instruments are recognised in profit and loss as they arise. The fair value of the forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles (refer to note 17).

Bank overdraft

Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs.

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

1.8 Tax

Current tax assets and liabilities

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

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

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

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

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

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

1.9 Leases

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

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.10 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

1.11 Impairment of non-financial assets

3G Distribution assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, 3G Distribution estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

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

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in profit or loss.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.13 Provisions and contingencies

Provisions are recognised when:
- 3G Distribution has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are not recognised for future operating losses.

1.14 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- 3G Distribution has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 3G Distribution retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to 3G Distribution; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue recognition based on contract to provide services require income to be recognised in stages of completion often as a percentage of services performed to the total of services to be provided as stipulated in the contract.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period.

The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to 3G Distribution;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectabiility of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services and fee income provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest income

Interest is recognised, in profit or loss, using effective interest rate method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discounts as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

1.15 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs. Cost of sales includes the cost of goods sold, warehousing costs, inbound and outbound freight and carriage.

1.16 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

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

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous combined historical financial information are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

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

Foreign controlled operations

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- income and expenses for each item of profit or loss are translated at the average exchange rates over the period; and
- all resulting exchange differences are recognised to other comprehensive income and accumulated as a separate component of equity.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the average exchange rates between the functional currency and the foreign currency over the period of the cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

In the current year, 3G Distribution has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

3G Distribution has adopted the amendment for the first time in the 2017 combined historical financial information.

The impact of the amendment is not material.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on 3G Distribution:

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Additional guidelines were prescribed for evaluating whether 3G Distribution will have sufficient taxable profit in future periods. 3G Distribution is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after 01 January 2017.

3G Distribution has adopted the amendment for the first time in the 2017 combined historical financial information.

The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The 3G Distribution has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the 3G Distribution's accounting periods beginning on or after 01 January 2018 or later periods:

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The lessor continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The effective date of the standard is for years beginning on or after 01 January 2019.

3G Distribution expects to adopt the standard for the first time in the 2019 combined historical financial information.

The impact of this standard is currently being assessed by management.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The 3G Distribution expects to adopt the standard for the first time in the 2018 combined historical financial information.

The impact of this new standard and interpretation on the group's combined historical financial information is still being assessed.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

3G Distribution expects to adopt the standard for the first time in the 2018 combined historical financial information.

The impact of this standard is currently being assessed by management.

3. RISK MANAGEMENT

Capital risk management

3G Distribution's objectives when managing capital are to safeguard 3G Distribution's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of 3G Distribution, cash and cash equivalents disclosed in note 13, and equity as disclosed in the consolidated statement of financial position.

In order to maintain or adjust the capital structure, 3G Distribution may adjust the amount of dividends paid to the shareholders, return capital to the shareholders, issue new shares or sell assets to reduce debt.

During the year loans from shareholders and related parties were converted to equity.

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

Financial risk management

3G Distribution's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

3G Distribution's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents trade and other receivables. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer taking into accounts its financial position, past experience and other factors. Individual risk limits are based on internal or external ratings in accordance with limits set by the Board. The utilisations of credit limits are regularly monitored.

Further to the above, 3G Mobile Proprietary Limited has credit insurance in place for the majority of its trade receivables and Three G (Mauritius) Limited insures on selected debtors of high risk.

Financial assets exposed to credit risk at year-end were as follows:

Financial instrument	2017	2016
Trade and other receivables	271 315 168	349 741 560
Cash and cash equivalents	111 829 364	81 540 227
Loans to shareholders	2	2
Loan to Comm Equipment Company	24 474 078	–

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and ensuring the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of 3G Distribution's cash and cash equivalents on the basis of expected cash flow.

The table below analyses 3G Distribution's maturity analysis of its financial liabilities which will be settled in the relevant maturity groupings based on the remaining period at the statement financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 5 years
At 31 December 2017		
Trade and other payables	184 781 188	–
Finance lease liabilities	103 425	283 004
Derivative financial instruments	157 664	–
At 31 December 2016		
Trade and other payables	306 410 069	–
Finance lease liabilities	86 112	388 558
Derivative financial instruments	6 629 641	–

Foreign exchange risk

3G Mobile Distribution undertakes certain transactions denominated in foreign currencies which therefore have exposure to exchange fluctuations. In this regard, 3G Distribution hedges certain trade payables denominated in foreign currency, by the use of forward exchange contracts.

3G Mobile Proprietary Limited (3G Mobile)

At 31 December 2017, if the currency had strengthened/weakened by 1% against the US Dollar with all other variables held constant, post-tax profit for the year would have been R278 186 (2016: R470 201) higher/lower, mainly as a result of foreign exchange gains or losses on translation of US Dollar denominated accounts receivables and accounts payable balances.

At 31 December 2017, if the currency had weakened/strengthened by 1% against the Pula with all other variables held constant, post-tax profit for the year would have been R233 966 (2016: R114 639) higher/lower, mainly as a result of foreign exchange gains or losses on translation of Pula denominated accounts receivables, cash and cash equivalents and accounts payable balances.

3G Mobile's foreign currency risk on the Zambian Kwacha has not been taken into account as the value of the transactions are immaterial.

Three-G Mobile Limited (Three-G Mobile)

At 31 December 2017, part of Three-G Mobile's cash at bank is denominated in Mauritian Rupee (MUR). However, Three-G Mobile is not exposed to any significant foreign currency risk on the MUR denominated cash at bank portion and any change in the MUR/USD exchange rate will not have a material impact on the Three-G Mobile's equity.

Three G Mobile (Namibia) Proprietary Limited

At 31 December 2017, if the currency had strengthened/weakened by 10% (2016: 10%) against the US Dollar with all other variables held constant, post-tax profit for the year would have been N$1 256 (2016: N$534) lower/higher, mainly as a result of foreign exchange gains or losses on translation of US Dollar denominated bank balances.

At 31 December 2017, if the currency had weakened/strengthened by 10% against the Pula with all other variables held constant, post-tax profit for the year would have been N$143 831 (2016: N$115 034) lower/higher, mainly as a result of foreign exchange gains or losses on translation of Pula denominated accounts payable balances.

Three G Mobile (Zambia) Limited

At 31 December 2017, if the currency had weakened/strengthened by 10% against the Rand with all other variables held constant, post-tax profit for the year would have been ZMW54 608 (2016: ZMW43 586) lower/higher, mainly as a result of foreign exchange gains or losses on translation of the Rand denominated accounts payable balances.

Three G Mobile (Mauritius) Limited

At 31 December 2017, part of the company's trade payables are denominated in Rand (ZAR) and Namibian Dollars. However, the Company is not exposed to any significant foreign currency risk on the ZAR and Namibian Dollars denominated trade payables portion and any change in ZAR/USD exchange rate will not have a material impact on the company's equity.

Foreign currency exposure at the end of the reporting period – 3G Mobile Proprietary Limited

	2017 R	2016 R
Current assets		
Trade debtors, USD112 340 (2016: USD670 347)	1 389 532	9 163 643
Trade debtors, BWP29 145 919 (2016: BWP12 975 185)	36 604 360	16 805 460
Cash and cash equivalents USD319 851 (2016: USD261)	3 956 555	3 571
Current liabilities		
Trade payables, USD3 318 929 (2016: USD5 643 874)	41 051 834	77 151 758
Trade payables, BWP3 356 015 (2016: BWP682 035)	4 214 819	883 371
Loan from group company USD236 704 (2016: USD196 226)	3 236 903	2 682 413
Foreign currency exposure at the end of the reporting period – Three G Mobile (Zambia) Limited		
Current liabilities		
Trade payables ZMW440 302 (2016: ZMW363 419)	546 464	505 152
Foreign currency exposure at the end of the reporting period – Three G Mobile (Namibia) Limited		
Current assets		
Cash and cash equivalents USD1 015 (2016: USD389)	12 556	5 341
Current liabilities		
Trade payables BWP1 142 512 (2016: BWP888 157)	1 438 305	1 150 340
Exchange rates used for conversion of foreign items were:		
US Dollar	12.37	13.67
Botswana Pula	1.26	1.30
Zambian Kwacha	1.23	1.39
Mauritius Rupee	0.37	0.38

Forward exchange contracts which relate to future commitments

Amount in foreign currency purchased	Forward exchange rate	Maturity date
USD55 040	13.0216	Tuesday, 09 January 2018
USD81 200	13.0216	Tuesday, 09 January 2018
USD23 992	13.0669	Wednesday, 31 January 2018
USD37 608	13.0669	Wednesday, 31 January 2018
USD64 203	14.3375	Tuesday, 20 March 2018
Amount in foreign currency sold		
USD64 203	14.0263	Tuesday, 20 March 2018

3G Distribution reviews its foreign currency exposure, including commitments on an ongoing basis. 3G Distribution expects its foreign exchange contracts to hedge foreign exchange exposure.

Interest rate risk

3G Distribution's interest rate risk arises from favourable bank balances. Variable interest rates expose 3G Distribution to cash flow interest rate risk.

3G Mobile Proprietary Limited

A change of 1 percentage point in the interest rate at the reporting date would have increased/decreased pre-tax profit by R714 135 (2016: R209 752) or decreased pre-tax profit by R714 135 (2016: R209 752), respectively.

3G Mobile (Zambia) Limited

A change of 1 percentage point in the interest rate at the reporting date would have increased pre-tax profit by ZMW9 682 (2016: ZMW17 948) or decreased pre-tax profit by ZMW9 682 (2016: ZMW17 948), respectively.

3G Mobile (Namibia) Proprietary Limited

A change of 1 percentage point in the interest rate at the reporting date would have increased pre-tax profit by N$280 052 (2016: N$280 611) or decreased pre-tax profit by N$280 052 (2016: N$280 611), respectively.

Three G Smart Technology Shop Proprietary Limited

A change of 1 percentage point in the interest rate at the reporting date would have increased pre-tax profit by N$4 906 (2016: N$7 827) or decreased pre-tax profit by N$4 906 (2016: N$7 827) respectively.

Three G Mobile (Mauritius) Limited

A change of 25 basis points in the interest rate at the reporting date would have a marginal effect on operating cash flows and equity.

Three-G Mobile Limited

Exposure to interest rate risk is limited to bank balances and interest thereon is based on market rates. At 31 December 2017, the bank balances stood at USD96 668 (2016: USD927 868) and interest income of USD10 609 (2016: USD11 364) was earned during the year.

Price risk

3G Distribution is not exposed to equity price risk as there are no investments classified as available for sale in the statement of financial position. The group is not exposed to commodity price risk.

Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves (refer to note 17).
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to the present value (refer to note 17).
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables and payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to 3G Distribution for similar financial instruments.

4. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables	Total
2017		
Loans to shareholders	2	2
Trade and other receivables	277 524 238	277 524 238
Loan to Comm Equipment Company	24 474 078	24 474 078
Cash and cash equivalents	111 829 364	111 829 364
	413 827 682	413 827 682
2016		
Loans to shareholders	2	2
Trade and other receivables	351 840 765	351 840 765
Cash and cash equivalents	81 450 227	81 450 227
	433 290 994	433 290 994

5. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	Financial liabilities at amortised cost	Fair value through profit or loss – held for trading	Total
2017			
Finance lease liabilities	386 429	–	386 429
Trade and other payables	177 985 892	–	177 985 892
Derivative financial instrument	–	157 664	157 664
	178 372 321	157 664	178 529 985
2016			
Finance lease liabilities	474 670	–	474 670
Trade and other payables	303 241 212	–	303 241 212
Derivative financial instrument	–	6 629 641	6 629 641
	303 715 882	6 629 641	310 345 523

6. PROPERTY, PLANT AND EQUIPMENT

	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Plant and machinery	249 418	(110 984)	138 434	231 346	(81 972)	149 374
Furniture and fixtures	4 607 296	(2 084 767)	2 522 529	4 710 559	(1 337 644)	3 372 915
Motor vehicles	3 712 579	(1 542 379)	2 170 200	4 363 429	(1 393 277)	2 970 152
Office equipment	751 134	(194 145)	556 989	1 319 206	(320 643)	998 563
Computer equipment	3 010 338	(1 936 706)	1 073 632	2 993 519	(1 175 172)	1 818 347
Leasehold improvements	2 366 146	(1 779 810)	586 336	3 044 576	(1 785 501)	1 259 075
Security system	15 291	(3 470)	11 821	15 823	(950)	14 873
Other fixed assets	28 396	(6 536)	21 860	29 384	(884)	28 500
Capital - Work in progress	127 269	–	127 269	–	–	–
Total	14 867 867	(7 658 797)	7 209 070	16 707 842	(6 096 043)	10 611 799

Reconciliation of property, plant and equipment – 2017

	Opening balance	Additions	Change in control – subsidiary to associate	Foreign exchange movements	Depreciation	Closing balance
Plant and machinery	149 374	18 071	–	–	(29 011)	138 434
Furniture and fixtures	3 372 915	88 416	(130 274)	(1 000)	(807 528)	2 522 529
Motor vehicles	2 970 152	–	(283 134)	(18 490)	(498 328)	2 170 200
Office equipment	998 563	23 675	(390 552)	(496)	(74 201)	556 989
Computer equipment	1 818 347	193 178	(94 507)	(269)	(843 117)	1 073 632
Leasehold improvements	1 259 075	9 200	–	(3 410)	(678 529)	586 336
Security system	14 873	–	–	(366)	(2 686)	11 821
Other fixed assets	28 500	–	–	(661)	(5 979)	21 860
Capital – Work in progress	–	127 269	–	–	–	127 269
	10 611 799	459 809	(898 467)	(24 692)	(2 939 379)	7 209 070

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Disposals	Disposals through business divesture	Foreign exchange movements	Depreciation	Closing balance
Plant and machinery	275 263	11 304	(101 137)	–	–	(36 056)	149 374
Furniture and fixtures	2 407 400	1 737 310	(172 502)	–	(10 896)	(588 397)	3 372 915
Motor vehicles	1 656 967	2 086 511	(29 167)	–	(92 158)	(652 001)	2 970 152
Office equipment	937 891	553 753	(255 093)	(37 370)	(22 913)	(177 705)	998 563
Computer equipment	1 874 017	1 017 745	(261 053)	–	(11 691)	(800 671)	1 818 347
Leasehold improvements	1 392 988	874 687	(53 465)	(41 810)	(15 078)	(898 247)	1 259 075
Security system	84 322	17 262	(77 326)	–	(1 352)	(8 033)	14 873
Other fixed assets	–	32 054	–	–	(2 591)	(963)	28 500
	8 628 848	6 330 626	(949 743)	(79 180)	(156 679)	(3 162 073)	10 611 799

Property, plant and equipment encumbered as security

Carrying value of assets pledged as security:

Motor vehicles (refer to note 14)	619 718	625 134

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the business address of the group.

7. GOODWILL

	2017 Cost	2017 Accumulated impairment	2017 Carrying value	2016 Cost	2016 Accumulated impairment	2016 Carrying value
Goodwill	53 943 502	(17 802 267)	36 141 235	55 808 416	(17 802 267)	38 006 149

Reconciliation of goodwill – 2017

	Opening balance	Additions through business combinations	Changed in control – subsidiary to associate	Foreign exchange movements	Closing balance
Goodwill	38 006 149	550 677	(383 131)	(2 032 460)	36 141 235

Reconciliation of goodwill – 2016

	Opening balance	Disposals through business divesture	Foreign exchange movements	Impairment loss	Closing balance
Goodwill	56 068 657	61 019	(4 195 308)	(13 928 219)	38 006 149

Impairment test for goodwill performed at 31 December each year

Goodwill was allocated to each separate business combination. The recoverable amount was determined based on value-in-use calculations. These calculations used pre-taxation cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined the budgeted gross margin based on business performance and its expectations for market development. The weighted average growth rates used were consistent with the forecast included in industry reporting. The discount rates used were pre-taxation, and reflected specific risks relating to the individual subsidiary entities.

The assessment of goodwill represents an area of significant judgement. The directors are of the opinion that there will be no further material impairments if any of the assumptions are changed.

The key assumptions used for value-in-use calculations are as follows:

	2017 Three G Mobile Namibia	2016 Three G International
Gross Margin[1]	10,89%	11,18% – 13,39%
Growth rate[2]	8,00% – 9,00%	8,00% – 46,80%
Discount rate[3]	19.04%	19,04%
Terminal growth rate[4]	7,00%	7,00% – 8,00%

1. *Budgeted gross margin*
2. *Growth rate used for the growth in business for the 5 year forecast*
3. *Pre-taxation discount rate applied to the cash flow projections*
4. *Weighted average growth rate used to extrapolate cash flows beyond the budget period (terminal value growth)*

The impairment charge in 2016 arose in respect of the goodwill on the acquisition of Three G International Limited due to an expected decrease in sales volumes in 3G Mobile (Botswana) Proprietary Limited (3G Botswana). This led to lower than expected cash flows and operating profits in 3G Botswana in the foreseeable future. An impairment charge of R13 928 219 was recognised in the Statement of Profit or Loss and Other Comprehensive Income in 2016.

	2017	2016
Three G International Limited and its subsidiaries	17 392 421	19 808 012
Three G Mobile (Namibia) Proprietary Limited and its subsidiary	18 198 137	18 198 137
Phone Fast Proprietary Limited	550 677	–
	36 141 235	38 006 149

8. Intangible assets

	2017 Cost	2017 Accumulated amortisation	2017 Carrying value	2016 Cost	2016 Accumulated amortisation	2016 Carrying value
Computer software	5 565 297	(2 096 586)	3 468 711	5 355 731	(1 155 680)	4 200 051
Licences	124 065	(49 829)	74 236	134 926	(18 285)	116 641
Total	5 689 362	(2 146 415)	3 542 947	5 490 657	(1 173 965)	4 316 692

Reconciliation of intangible assets – 2017

	Opening balance	Additions	Change in control – subsidiary to associate	Foreign exchange movements	Amortisation	Closing balance
Computer software	4 200 051	313 408	(99 455)	–	(945 293)	3 468 711
Licences	116 641	–	–	(4 944)	(37 461)	74 236
	4 316 692	313 408	(99 455)	(4 944)	(982 754)	3 542 947

Reconciliation of intangible assets – 2016

	Opening balance	Additions	Disposals	Foreign exchange movements	Amortisation	Closing balance
Computer software	1 176 815	4 532 570	(348 500)	(4 936)	(1 155 898)	4 200 051
Licences	–	145 046	–	(8 517)	(19 888)	116 641
	1 176 815	4 677 616	(348 500)	(13 453)	(1 175 786)	4 316 692

9. DEFERRED TAX

Deferred tax asset

	2017 R	2016 R
Estimated tax loss	200 662	2 279 597
Property, plant and equipment	(1 024 433)	(812 775)
Prepayments	–	(12 940)
Provision for bonus	540 037	20 802
Provision for doubtful debts	1 586 695	1 452 407
Provision for leave pay	198 543	166 966
Provision for warranties	577 502	1 296 905
Provision for WCA	55 440	35 280
Unrealised exchange loss	–	(116 581)
Unrealised profit in inventory	–	5 527
Total deferred tax asset	2 134 446	4 315 188

No deferred tax asset was raised in Three G (Zambia) Limited as future taxable income is not expected. The tax losses amount to R2 057 853 (2016: R1 757 072).

Deferred tax assets are recognised for temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

10. TRADE AND OTHER RECEIVABLES

	2017 R	2016 R
Trade receivables	280 400 187	358 299 607
Impairment of trade receivables	(9 085 019)	(8 558 047)
	271 315 168	349 741 560
Prepayments	556 979	7 993 578
Deposits	285 370	117 952
Value added tax	18 813 816	48 700 795
Other receivables	6 209 070	2 099 205
	297 180 403	408 653 090
Current assets	297 180 403	408 653 090
Financial assets	277 524 238	351 840 765
Non-financial assets	19 656 165	56 812 325
	297 180 403	408 653 090
Fair value of trade and other receivables		
Trade and other receivables	297 180 403	408 653 090

INTEREST RATE AND RE-PAYMENT TERMS APPLICABLE IN RESPECT OF ADVANCES TO CUSTOMERS

Trade receivables fully performing

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. Credit risk relating to trade and other receivables is documented in note 3 to these financial statements.

At 31 December 2017, R197 523 135 (2016: R140 832 639) trade receivables were fully performing.

Trade receivables past due but not impaired

Trade receivables which are less than 3 months past due are not considered to be impaired. At 31 December 2017, R73 792 033 (2016: R208 908 921) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2017 R	2016 R
1 month past due	37 460 126	113 913 549
2 months past due	9 727 329	34 660 971
3 months and longer past due	26 604 578	60 334 401
	73 792 033	208 908 921

Trade receivables impaired

The amount of the impairment was R9 085 019 as of 31 December 2017 (2016: R8 558 047).

The ageing of these amounts are as follows:

	2017 R	2016 R
3 months and longer past due	9 085 019	8 558 047

Reconciliation of the impairment of advances to customers and trade receivables

	2017 R	2016 R
Opening balance	8 558 047	12 732 998
Provision for impairment	1 621 792	674 231
Unused amounts reversed	(929 605)	(4 849 182)
Change in control – subsidiary to associate	(165 215)	–
	9 085 019	8 558 047

The creation and release of the impairment against receivables have been included in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

Currencies

The carrying amount of trade and other receivables are denominated in the following currencies:

	2017 R	2016 R
Rand	131 744 518	255 109 062
Botswana Pula	36 604 260	37 236 007
US Dollar	10 251 276	43 715 268
Zambian Kwacha	753 609	1 252 335
Namibian Dollar	71 088 292	42 220 552
Mauritius Rupee	46 738 448	29 119 866
	297 180 403	408 653 090

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

11. INVENTORIES

	2017 R	2016 R
Merchandise	106 076 475	156 976 371
Goods in transit	1 750 300	31 621 657
Consignment inventory	–	1 113 562
	107 826 775	189 711 590
Provision for inventory obsolescence	(28 342 844)	(10 095 650)
	79 483 931	179 615 940

12. LOANS TO (FROM) SHAREHOLDERS

	2017 R	2016 R
SD Lochoff *[1]	1	1
A Prokas **[1]	1	1
	2	2

1 The above loans are unsecured, interest free and have no fixed terms of repayment.
** SD Lochoff is a shareholder of Three G Mobile (Zambia) Limited.*
*** A Prokas is a shareholder of Three G (Namibia) Proprietary Limited.*

Fair value of loans to/(from) shareholders

Loans to/(from) shareholders	2	2

Currencies

The carrying amount of the loans to/(from) the shareholders are denominated in the following currencies:

Zambian Kwacha	1	1
Namibian Dollars	1	1
	2	2

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2017 R	2016 R
Cash on hand	164 386	77 820
Bank balances	111 664 978	81 372 407
	111 829 364	81 450 227

3G Mobile Proprietary Limited has the following facilities with Investec Bank Limited:

Foreign exchange dealing	USD20 000 000	USD20 000 000
Foreign exchange settlement	USD5 000 000	USD5 000 000

Three G Mobile (Namibia) Proprietary Limited has the following facilities with First National Bank Namibia:

Short term direct facility	N$ -	N$12 000 000
First card allocation	N$70 000	N$40 000
Pre-settlement facility	N$370 000	–

These banking facilities are secured by a cession of debtors amounting to N$66 195 900 (2016: N$41 445 488) and a suretyship of N$12 000 000 by 3G Mobile Proprietary Limited. At year-end the overdraft amounted to R Nil (2016: R Nil).

Currencies

The carrying amount of cash and cash equivalents are denominated in the following currencies:

	2017 R	2016 R
Rand	67 517 036	19 047 985
US Dollar	11 091 649	12 882 204
Botswana Pula	–	11 842 366
Zambian Kwacha	1 195 357	2 490 000
Namibian Dollar	28 593 796	28 872 660
Mauritius Rupee	3 431 526	6 315 012
	111 829 364	81 450 227

14. FINANCE LEASE LIABILITIES

	2017 R	2016 R
Minimum lease payments due		
– within one year	130 572	124 720
– in second to fifth year inclusive	316 304	450 114
	446 876	574 834
Less: future finance charges	(60 447)	(100 164)
Present value of minimum lease payments	386 429	474 670
Present value of minimum lease payments due		
– within one year	103 425	86 112
– in second to fifth year inclusive	283 004	388 558
	386 429	474 670
Non-current liabilities	283 004	388 558
Current liabilities	103 425	86 112
	386 429	474 670

It is group policy to lease certain motor vehicles under finance leases.

The average lease term is 5 years and the average effective borrowing rate is 8.75%.

The group's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 6.

15. TRADE AND OTHER PAYABLES

	2017 R	2016 R
Trade payables	159 614 293	298 186 769
Value added taxation	19 612	143 229
Payroll accruals	6 775 684	3 025 628
Accruals and other payables	18 371 599	5 054 443
	184 781 188	306 410 069
Financial liabilities	177 985 892	303 241 212
Non-financial liabilities	6 795 296	3 168 857
	184 781 188	306 410 069

Fair value of trade and other payables

Trade and other payables	184 781 188	306 410 069

Currencies

The carrying amount of trade and other payables are denominated in the following currencies:

	2017 R	2016 R
Rand	88 857 770	217 702 745
US Dollar	82 807 011	55 136 554
Botswana Pula	5 653 124	20 485 084
Namibian Dollar	4 850 657	10 860 400
Zambian Kwacha	1 667 842	1 700 092
Mauritius Rupee	944 784	525 194
	184 781 188	306 410 069

An amount of R11 464 508 (2016 nil) relating to interest on Preference share issued to First Rand Bank Limited (acting through its Rand Merchant Bank division) has been included in accruals and other payables.

16. PROVISIONS

Reconciliation of provisions – 2017

	Opening balance	Additions	Utilised during the year	Change in control – subsidiary to associate	Closing balance
Provision for warranties	6 814 675	2 246 741	(4 808 584)	(655 909)	3 596 923
Other provisions	237 676	–	–	(237 676)	–
	7 052 351	2 246 741	(4 808 584)	(893 585)	3 596 923
Reconciliation of provisions – 2016					
Provision for warranties	5 903 621	3 586 094	(2 637 489)	(37 551)	6 814 675
Other provisions	187 280	63 545	–	(13 149)	237 676
	6 090 901	3 649 639	(2 637 489)	(50 700)	7 052 351

The warranty provision represents management's best estimate of 3G Distribution's liability under product warranties granted on telecommunication products sold and is based on prior experience and industry averages for defective products.

17. DERIVATIVE FINANCIAL INSTRUMENTS

Fair Value Measurements

3G Distribution records derivative assets and liabilities at fair value.

Fair value is a market-based measurement and is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

A financial instrument's categorisation within a three-level valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Derivative liabilities

The fair value of forward exchange contracts is derived from market prices for contracts of similar terms and conditions.

Forward exchange contracts are classified as Level 2.

Internal models with significant observables market parameters (Level 2):

	2017 R	2016 R
Forward exchange contracts	157 664	6 629 641

Forward foreign exchange instrument

The notional principal amount of the outstanding forward foreign exchange contracts at 31 December 2017 was R3 499 749 (2016: R220 660 306) in respect of currency purchased and R900 524 (2016: R62 292 937) in respect of currency sold.

Gains and losses recognised on forward foreign exchange contracts as of 31 December 2017 are recognised in the statement of profit or loss and other comprehensive income. This is generally within 12 months from the end of the reporting period.

18. REVENUE

Sale of goods	1 608 671 497	2 230 147 327

19. COST OF SALES

Sale of goods	1 497 236 206	2 071 268 932

		2017 R	2016 R
20.	**OTHER INCOME**		
	Bad debts recovered	–	2 673 374
	Sundry income	1 453 190	(57 664)
	Profit on sale of investment in subsidiary	–	1 321 359
	Profit on exchange differences	–	963 401
	Change in control – subsidiary to associate	343 576	–
		1 796 766	4 900 470
21.	**OPERATING PROFIT**		
	Operating profit for the year is stated after accounting for the following:		
	Operating lease charges		
	Premises		
	– Contractual amounts	3 133 283	4 071 055
	Equipment		
	– Contractual amounts	–	269 418
		3 133 283	4 340 473
	Impairment of goodwill	–	13 928 219
	Loss/(Profit) on exchange differences	(90 901)	(7 363 490)
	Depreciation and amortisation	3 922 133	4 337 864
	Employee costs	41 005 705	41 099 921
22.	**FINANCE INCOME**		
	Interest income		
	Bank	4 056 758	5 091 299
23.	**FINANCE COSTS**		
	Interest on overdue accounts	–	875 281
	Bank	57 553	101 366
	South African Revenue Services	–	116 444
	Related parties interest expense	799 306	522 896
	Interest on preference shares	11 464 508	
	Total finance costs	12 321 367	1 615 987
24.	**TAXATION**		
	Major components of the tax expense		
	Current		
	Local income tax – current period	13 860 839	17 190 541
	Capital gains taxation	–	189 019
	Local income tax – prior period	264 363	–
		14 125 202	17 379 560
	Deferred		
	Originating and reversing temporary differences	377 288	801 420
		14 502 490	18 180 980
	Reconciliation of the tax expense		
	Reconciliation between accounting profit and tax expense.		
	Accounting profit	26 941 554	52 448 449
	Tax at the applicable tax rate of 28% (2016: 28%)	7 543 635	14 685 566
	Tax effect of adjustments on taxable income		
	Non-deductible expenditure	7 421 221	4 124 071
	Subsidiaries subject to different tax rates	(566 008)	(523 484)
	Exempt income	(470 678)	(28 139)
	Capital gains tax	–	189 019
	Profit on sale of subsidiary	–	(266 053)
	Prior year under provision	264 363	–
	Deferred tax asset not recognised on tax loss	309 957	–
		14 502 490	18 180 980

	2017 R	2016 R
25. CASH USED IN OPERATIONS		
Profit before taxation	26 941 554	52 448 449
Adjustments for:		
Depreciation and amortisation	3 922 133	4 337 842
Net loss on disposal of property, plant and equipment	–	509 789
Scrapping of intangible asset	–	348 500
Profit on disposal of investment	–	(1 321 359)
Finance income	(4 056 758)	(5 091 299)
Finance costs	12 321 367	1 615 987
Impairment of goodwill	–	13 928 219
Movements in provisions	(2 561 842)	961 450
Equity profit from Associate	(781 306)	–
Loss of control - subsidiary to associate	(343 576)	–
Unrealised foreign exchange (profit)/loss	(2 998 138)	1 416 129
Movement in derivative financial instruments	(6 471 977)	6 298 911
Changes in working capital:		
Inventories	90 041 682	(31 784 061)
Trade and other receivables	129 658 321	(5 675 603)
Trade and other payables	(115 302 187)	(38 857 125)
	130 369 273	(864 171)

26. TAX PAID

Balance at beginning of the year	3 361 883	(1 825 896)
Current tax for the year recognised in profit or loss	(14 125 202)	(17 379 560)
Loss of control - subsidiary to associate	(693 091)	–
Balance at end of the year	(2 431 108)	(3 361 883)
	(13 887 518)	(22 567 339)

27. COMMITMENTS

Capital commitments

Capital commitments to the value of Nil have been approved by the board for the next 12 months.

Operating leases – as lessee (expense)

Minimum lease payments due

– within one year	1 619 105	1 538 407
– in second to fifth year inclusive	754 972	2 618 202
	2 374 077	4 156 609

Operating lease payments represent rentals payable by the group for certain of its office equipment and office premises. Office equipment leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

28. CONTINGENCIES

In terms of a Counter Indemnity Agreement entered into between, inter alia, Comm Equipment Company Proprietary Limited (CEC) and 3G Mobile Proprietary Limited (3G Mobile) on 9 September 2016, 3G Mobile Proprietary Limited and its subsidiaries (including CEC) jointly and severally guarantee, via indemnities provided to Newshelf 1309 (RF) Proprietary Limited (Newshelf 1309) (as Security SPV), the obligations of CEC under the Common Terms Agreement concluded between CEC, Newshelf 1309, Investec Bank Limited (Investec) and FirstRand Bank Limited (RMB). At year end, R1 329 268 149 of the facility had been utilised.

A Subordination Agreement, dated 9 September 2016, was entered into by 3G Mobile, CEC and certain other parties in terms of which all parties subordinate their claims against each other in favour of any claims by Investec, RMB and Newshelf 1309.

All shareholders of 3G Mobile have pledged their shares to Newshelf 1309 as security for CEC's facilities. In addition, Blue Label Telecoms Limited and The Prepaid Company Proprietary Limited collectively have replaced guarantees to the value of R 150 000 000, previously provided by Melkbos Trust and Fynbos Trust. 3G Mobile has pledged the shares of its subsidiaries (including CEC) as well as all claims of 3G Mobile and its subsidiaries as security to Newshelf 1309.

29. RELATED PARTIES

Relationships

Ultimate holding company	Blue Label Telecoms Limited
Holding company	The Prepaid Company Proprietary Limited
Associate	3G Mobile (Botswana) Proprietary Limited - Refer to note 33
Shareholders	Investec Bank Limited Newshelf 1312 Proprietary Limited Wild Rose Capital Proprietary Limited Malewell Investments Proprietary Limited DBF Capital Partners Proprietary Limited JH Beare The Prepaid Company Proprietary Limited
Related parties	Comm Equipment Company Proprietary Limited
Directors	MS Levy BM Levy
Shareholders of subsidiaries	A Prokas SD Lochoff
Prescribed officers	I Zwarenstein JS Friedman

Related party balances

During the year, the company, its direct and indirect subsidiaries and other related parties entered into various transactions, in the ordinary course of business.

	2017 R	2016 R
Loan accounts – Owing (to)/from shareholders / related parties		
A Prokas*	1	1
SD Lochoff **	1	1
Comm Equipment Company Proprietary Limited	24 474 078	(40 000 000)
	24 474 080	39 999 998

** A Prokas is a shareholder and a director in Three G Mobile (Namibia) Proprietary Limited*
*** SD Lochoff is a shareholder and a director in Three G Mobile (Zambia) Limited*
**** SD Lochoff was a director in Three-G Mobile Limited and 3G Mobile Proprietary Limited in 2016.*

	2017 R	2016 R
Amounts included in trade receivables / (trade payables) regarding related parties		
Altivex 567 Proprietary Limited	–	63 996
3G Mobile (Botswana) Proprietary Limited	44 868 373	–
3G Mobile (Botswana) Proprietary Limited	(6 071 843)	–
	38 796 530	63 996
Related party transactions		
Export and sales of mobile phones and tablets		
3G Mobile Botswana Proprietary Limited	52 525 542	–
Comm Equipment Company Proprietary Limited	422 389 061	212 378 621
	474 914 603	212 378 621
Purchases from related parties		
3G Mobile Botswana Proprietary Limited	4 783 476	–
Comm Equipment Company Proprietary Limited	7 332 905	
	12 116 381	

30. GOING CONCERN

The directors believe that 3G Distribution has adequate financial resources to continue in operation for the foreseeable future and accordingly the combined historical financial information have been prepared on a going concern basis. The directors have satisfied themselves that 3G Distribution is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements.

31. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

32. SALE OF SUBSIDIARIES

3G Mobile (Botswana) Proprietary Limited held 100% of the issued share capital of Blackstone Technology Proprietary Limited (Blackstone). 3G Mobile (Botswana) Proprietary Limited sold Blackstone during the prior financial year.

	2017 R	2016 R
Carrying value of assets and liabilities sold		
Property, plant and equipment	–	79 180
Deferred tax asset	–	20 280
Shareholders loan	–	135
Inventories	–	211 285
Trade and other receivables	–	674
Trade and other payables	–	(19 194)
Equity	–	(129 885)
	–	162 475
Consideration received		
Cash	–	(1 483 834)
Profit on sale of investment	–	1 321 359
	–	(162 475)

33. INVESTMENT IN ASSOCIATE

The following table lists all of the associates in the 3G Distribution:

Material associate

The following associate is material to 3G Distribution:

	Country of incorporation	Method	% Ownership interest 2017	2016
3G Mobile (Botswana) Proprietary Limited	Botswana	Equity	50%	*

** 3G Mobile (Botswana) Proprietary Limited was accounted for as a subsidiary in 2016. Refer note 36.*

Summarised financial information of material associates
Summarised Statement of Profit or Loss and Other Comprehensive Income

	3G Mobile (Botswana) Proprietary Limited 2017
Revenue	111 820 711
Other income and expenses	(109 817 362)
Profit before tax	2 003 349
Tax expense	(440 738)
Profit from continuing operations	1 562 611
Total comprehensive income	1 562 611

Summarised Consolidated Statement of Financial Position

	3G Mobile (Botswana) Proprietary Limited
	2017
Assets	
Non-current	2 065 577
Current	56 070 230
Total assets	58 135 807
Liabilities	
Current	56 583 304
Total liabilities	56 583 304
Total net assets	1 552 503
Aggregated individually immaterial associates accounted for using the equity method	
Carrying value of investments	781 306
Share of profit from continuing operations	781 306

	2017 R	2016 R

34. LOANS TO (FROM) COMM EQUIPMENT COMPANY (PTY) LTD

	2017 R	2016 R
Comm Equipment Company Proprietary Limited		
This loan represents treasury and working capital management. The loan is unsecured and bears an interest rate at 10.11% per annum.	24 474 078	(40 000 000)
Current assets	24 474 078	–
Current liabilities	–	(40 000 000)
	24 474 078	(40 000 000)

35. BUSINESS COMBINATIONS

Phone Fast Proprietary Limited

Effective 01 April 2017 the group acquired 95% of the voting equity interest of Phone Fast Proprietary Limited which resulted in the group obtaining control over Phone Fast Proprietary Limited. The full purchase price was allocated to goodwill. The full purchase price was settled in cash.

	2017 R	2016 R
Fair value of assets acquired and liabilities assumed		
Trade and other receivables		
Total identifiable net assets	100	–
Goodwill (Refer Note 7)	550 677	–
	550 777	–
Acquisition date fair value of consideration paid		
Cash	(550 777)	–

36. LOSS OF CONTROL – SUBSIDIARY TO ASSOCIATE

3G Mobile (Botswana) Proprietary Limited was accounted for as a subsidiary in 2016. However as at 1 January 2017 the group lost control over 3G Mobile (Botswana) Proprietary Limited however retained significant influence over the entity.

	2017 R	2016 R
Carrying vale of assets and liabilities – loss of control		
Property, plant and equipment	898 467	–
Intangible assets	99 455	–
Deferred tax asset	1 899 771	–
Inventories	10 090 327	–
Trade and other receivables	20 429 910	–
Trade and other payables	(45 032 481)	–
Tax asset	693 091	–
Cash and cash equivalents	11 842 366	–
Provisions	(893 585)	–
	27 321	–
Net cash outflow on loss of control		
Cash and cash equivalents	11 842 366	–

INDEPENDENT REPORTING ACCOUNTANTS' AUDIT REPORT ON THE SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION OF 3G DISTRIBUTION FOR THE FINANCIAL YEAR ENDED 31 MAY 2019

To the directors of Blue Label Telecoms Limited

Our opinion

Blue Label Telecoms Limited is issuing a circular to its shareholders (the Circular) regarding its proposed sale of Blue Label Mobile Holdings Proprietary Limited and its subsidiaries ViaMedia (Pty) Ltd, Cellfind (Pty) Ltd, Airvantage Proprietary Limited (Airvantage SA), AV Technology Limited (AV Technology), Simigenix (Pty) Ltd and Panacea Mobile (Pty) Ltd (collectively the VAS Operations) and 3G Mobile (Pty) Ltd and its subsidiaries excluding Comm Equipment Company (Pty) Ltd (collectively 3G Distribution) (the Proposed Transaction). In our opinion, the special purpose combined carve-out historical financial information of 3G Distribution for the year ended 31 May 2019 as set out in Annexure 3A of the Circular presents fairly, in all material respects, the combined financial position of 3G Distribution as at 31 May 2019, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards and the JSE Limited Listings Requirements.

What we have audited

At your request and solely for the purpose of the Circular to be dated on or about 6 November 2019, we have audited 3G Distribution's special purpose combined carve-out historical financial information, which comprises:
- the combined statement of financial position as at 31 May 2019;
- the combined statement of comprehensive income for the year then ended;
- the combined statement of changes in equity for the year then ended;
- the combined statement of cash flows for the year then ended; and
- the notes to the combined carve-out historical financial information, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Reporting accountant's responsibilities for the audit of the special purpose combined carve-out historical financial information* section of our report.

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

Independence

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

Emphasis of matter: Special purpose combined carve-out historical financial information

We draw attention to the fact that, as described in Annexure 3A of this Circular, 3G Distribution has not operated as a separate entity. This special purpose combined carve-out historical financial information is, therefore, not necessarily indicative of results that would have occurred if 3G Distribution had been a separate stand-alone entity during the year presented or of future results of 3G Distribution.

Our opinion is not modified in respect of this matter.

Purpose of this report

This report has been prepared for the purpose of the Circular and for no other purpose.

Other Matter

The combined carve-out historical financial information of 3G Distribution as at 31 May 2018, and for the period then ended was not audited but subject to review. A review engagement is substantially less in scope than an audit. The review report dated 30 October 2019 expressed an unqualified conclusion.

Responsibilities of the directors for the special purpose combined carve-out historical financial information

The directors of Blue Label Telecoms Limited are responsible for the preparation, contents and presentation of the Circular and are responsible for ensuring that Blue Label Telecoms Limited complies with the requirements of the JSE Limited Listings Requirements.

The directors of Blue Label Telecoms Limited are responsible for the preparation and fair presentation of the special purpose combined carve-out historical financial information of 3G Distribution in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements, and for such internal control as the directors determine is necessary to enable the preparation of the special purpose combined carve-out historical financial information that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose combined carve-out historical financial information, the directors of Blue Label Telecoms Limited are responsible for assessing 3G Distribution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate 3G Distribution or to cease operations, or have no realistic alternative but to do so.

Reporting accountant's responsibilities for the audit of the special purpose combined carve-out historical financial information

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

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

- Identify and assess the risks of material misstatement of the combined carve-out historical financial information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 3G Distribution's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of Blue Label Telecoms Limited.
- Conclude on the appropriateness of the directors of Blue Label Telecoms Limited's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 3G Distribution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountant's report to the related disclosures in the special purpose combined carve-out historical financial information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our reporting accountant's report. However, future events or conditions may cause 3G Distribution to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the combined carve-out historical financial information, including the disclosures, and whether the combined carve-out historical financial information represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within 3G Distribution to express an opinion on the special purpose combined carve-out historical financial information. We are responsible for the direction, supervision and performance of the 3G Distribution audit. We remain solely responsible for our audit opinion.
- We communicate with the directors of Blue Label Telecoms Limited regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Inc.
Director: Pietro Calicchio
Registered Auditor
Johannesburg

30 October 2019

INDEPENDENT REPORTING ACCOUNTANT'S REVIEW REPORT ON THE SPECIAL PURPOSE COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION FOR 3G DISTRIBUTION FOR THE 5 MONTHS ENDED 31 MAY 2018

To the directors of Blue Label Telecoms Limited

Introduction

Blue Label Telecoms Limited is issuing a circular to its shareholders (Circular) regarding its proposed sale of Blue Label Mobile Holdings Proprietary Limited and its subsidiaries ViaMedia (Pty) Ltd, Cellfind (Pty) Ltd, Airvantage SA, AV Technology, Simigenix (Pty) Ltd and Panacea Mobile (Pty) Ltd (collectively the Blue Label Mobile Group) and 3G Mobile (Pty) Ltd and its subsidiaries excluding Comm Equipment Company (Pty) Ltd (collectively 3G Distribution) (the Proposed Transaction).

At your request and for the purpose of the Circular to be dated on or about 6 November 2019, we have reviewed the accompanying statement of financial position of 3G Distribution as at 31 May 2018 and the related statements of comprehensive income, changes in equity and cash flows for the five months then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information (the special purpose combined carve-out historical financial information), as presented in Annexure 3A to the Circular, in compliance with the requirements of the JSE Limited Listings Requirements.

Directors' responsibility

The directors of Blue Label Telecoms Limited are responsible for the preparation, contents and presentation of the Circular and are responsible for ensuring that Blue Label Telecoms Limited complies with the requirements of the JSE Limited's Listings Requirements.

The directors of Blue Label Telecoms Limited are responsible for the preparation and fair presentation of the special purpose combined carve-out historical financial information in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements, and for such internal control as the directors determine is necessary to enable the preparation of combined carve-out historical financial information that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose combined carve-out historical financial information, the directors of Blue Label Telecoms Limited are responsible for assessing 3G Distribution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate 3G Distribution or to cease operations, or have no realistic alternative but to do so.

Reporting accountant's responsibility

Our responsibility is to express a conclusion on the special purpose combined carve-out historical financial information of 3G Distribution. We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410),* which applies to a review of historical financial information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the special purpose combined carve-out historical financial information of 3G Distribution.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the special purpose combined carve-out historical financial information of 3G Distribution, does not present fairly, in all material respects, the financial position of 3G Distribution as at 31 May 2018, and its financial performance and its cash flows for the five months then ended in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements.

Purpose of the report

This report has been prepared for the purpose of the Circular and for no other purpose.

Emphasis of Matter: Special purpose combined carve-out historical financial information

We draw attention to the fact that, as described in Annexure 3A of this Circular, 3G Distribution has not operated as a separate entity. The combined carve-out historical financial information is, therefore, not necessarily indicative of results that would have occurred if 3G Distribution had been a separate stand-alone entity during the period presented or of future results of 3G Distribution.

Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers Inc.
Director: Pietro Calicchio
Registered Auditor
Johannesburg

30 October 2019

INDEPENDENT REPORTING ACCOUNTANT'S REVIEW REPORT ON SPECIAL PURPOSE COMBINED HISTORICAL FINANCIAL INFORMATION FOR3G DISTRIBUTION FOR THE YEARS ENDED 31 DECEMBER2017 AND 31 DECEMBER2016

To the directors of Blue Label Telecoms Limited

Introduction

Blue Label Telecoms Limited is issuing a circular to its shareholders (the Circular) regarding its proposed sale of Blue Label Mobile Holdings Proprietary Limited and its subsidiaries ViaMedia (Pty) Ltd, Cellfind (Pty) Ltd, Airvantage SA, AV Technology, Simigenix (Pty) Ltd and Panacea Mobile (Pty) Ltd (collectively the VAS Operations) and 3G Mobile (Pty) Ltd and its subsidiaries excluding Comm Equipment Company (Pty) Ltd (collectively 3G Distribution) (the Proposed Transaction).

At your request and for the purpose of the Circular to be dated on or about 6 November 2019, we have reviewed the accompanying statement of financial position of 3G Distribution as at 31 December 2017 and 31 December 2016 and the related statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information (the Special Purpose Combined Historical Financial Information of 3G Distribution), as presented in Annexure 3B to the Circular, in compliance with the requirements of the JSE Limited Listings Requirements.

Directors' responsibility

The directors of Blue Label Telecoms Limited are responsible for the preparation, contents and presentation of the Circular and are responsible for ensuring that the Blue Label Telecoms complies with the requirements of the JSE Limited's Listings Requirements.

The directors of Blue Label Telecoms Limited are responsible for the preparation and fair presentation of the combined historical financial information in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements, and for such internal control as the directors determine is necessary to enable the preparation of consolidated historical financial information that are free from material misstatement, whether due to fraud or error.

In preparing the combined historical financial information, the directors of Blue Label Telecoms Limited are responsible for assessing 3G Distribution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate 3G Distribution or to cease operations, or have no realistic alternative but to do so.

Reporting accountant's responsibility

Our responsibility is to express a conclusion on the Special Purpose Combined Historical Financial Information of 3G Distribution. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, which applies to a review of historical financial information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on the Special Purpose Combined Historical Financial Information of 3G Distribution.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Special Purpose Combined Historical Financial Information of 3G Distribution, do not present fairly, in all material respects, the financial position of 3G Distribution as at 31 December 2017 and 31 December 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards and the requirements of the JSE Limited Listings Requirements.

Purpose of the report

This report has been prepared for the purpose of the Circular and for no other purpose.

Emphasis of Matter: Special Purpose Historical Financial Information and Basis of preparation

Without modifying our opinion, we draw attention to the fact that, as described in Annexure 3A of this Circular, 3G Distribution did not operate as a separate entity. The Special Purpose Historical Financial Information of 3G Distribution is, therefore, not necessarily indicative of results that would have occurred if 3G Distribution had been a separate stand-alone entity during the period presented or of future results of 3G Distribution.

BDO South Africa Incorporated
Director: Mandi Terner Registered Auditor
Wanderers Office Park, 52 Corlett Drive, Illovo, 2196

30 October 2019

PRO FORMA FINANCIAL INFORMATION OF BLUE LABEL

The tables below set out the *pro forma* financial information of Blue Label Group based on the published audited group financial results for the year-ended 31 May 2019. The *pro forma* financial information has been prepared for illustrative purposes only and because of its *pro forma* nature, may not fairly present the Blue Label Group's financial position, changes in equity, results of operations or cash flows, nor the effect and impact of the VAS Operations Transaction and the 3G Distribution Transaction going forward.

The purpose of the *pro forma* financial information is to illustrate the impact of the VAS Operations Transaction and the 3G Distribution Transaction, had it been effective 31 May 2019 for purposes of the *pro forma* group statement of financial position and 1 June 2018 for purposes of the *pro forma* group income statement and on the assumptions set out below.

The *pro forma* financial information presented below does not purport to be indicative of the Blue Label Group's financial results and effects of the VAS Operations Transaction and the 3G Distribution Transaction if it had been implemented on a different date. The *pro forma* financial information has been prepared using accounting policies that comply with IFRS and that are consistent with those applied in the published audited group financial results of the Blue Label Group for the year ended 31 May 2019. The *pro forma* financial information is presented in accordance with the Listings Requirements, the Guide on *Pro Forma* Financial Information issued by the South African Institute of Chartered Accountants and ISAE 3420 (Assurance Engagements to Report on the Compilation of *Pro Forma* Financial Information Included in a Prospectus).

The Directors of the Company are responsible for the compilation, contents and preparation of the *pro forma* financial information. Their responsibility includes determining that the *pro forma* financial information has been properly compiled on the basis stated, which is consistent with the accounting policies of the Blue Label Group and that the *pro forma* adjustments are appropriate for purposes of the *pro forma* financial information disclosed pursuant to the Listings Requirements.

The *pro forma* group statement of financial position as at 31 May 2019 and the *pro forma* group income statement for the year then ended, should be read in conjunction with the Independent Reporting Accountant's assurance report thereon contained in Annexure 6 to this Circular.

Pro forma financial information of the Blue Label Group assuming the solvency and liquidity of Cell C is unproven.

The following tables set out the *pro forma* financial information of the VAS Operations Transaction and the 3G Distribution Transaction assuming the solvency and liquidity of Cell C is unproven (as described in paragraph 26.1 to this Circular).

PRO FORMA BLUE LABEL INCOME STATEMENT

For the year ended 31 May 2019

R'000	Before Note 1	VAS Operations Note 2	Equity compen-sation benefit scheme Note 3	VAS Operations Transaction: VAS Operations consolidation entries and subsequent events Note 4	VAS Operations Transaction: VAS Operations loss on disposal Note 5	VAS Operations Transaction: VAS Operations disposal application of proceeds Note 6	VAS Operations put/call options Note 7	AV Technology Note 8	Transaction costs for VAS Operations Transaction Note 9	*Pro forma* after the VAS Operations Transaction
Revenue	25 869 433	(359 116)	–	–	–	–	–	34 794	–	25 545 111
Other income	120 914	(3 710)	–	–	–	–	–	7 891	–	125 095
Changes in inventories of finished goods and finance costs incurred in the generation of revenue	(23 223 312)	72 259	–	–	–	–	–	(4 756)	–	(23 155 809)
Employee compensation and benefit expense	(594 183)	63 270	2 647	–	–	–	–	(391)	–	(528 657)
Depreciation and amortisation	(253 016)	58 387	–	–	–	–	–	(16 785)	–	(211 414)
Impairments and fair value losses	(1 212 089)	104 205	(5 933)	–	–	–	(73 664)	–	–	(1 187 481)
Other expenses	(498 083)	54 152	–	(5 723)	(174 992)	–	–	(1 556)	(3 719)	(629 921)
Operating profit	209 664	(10 553)	(3 286)	(5 723)	(174 992)	–	(73 664)	19 197	(3 719)	(43 076)
Finance costs	(245 957)	15 062	–	–	–	31 106	(14 825)	–	–	(214 614)
Finance income	99 705	(6 997)	–	–	–	–	–	–	–	92 708
Impairments on associates and joint venture	(2 669 076)	–	–	–	–	–	–	–	–	(2 669 076)
Share of losses from associates and joint ventures	(3 701 410)	1 664	–	–	–	–	–	–	–	(3 699 746)
Loss before taxation	(6 307 074)	(824)	(3 286)	(5 723)	(174 992)	31 106	(88 489)	19 197	(3 719)	(6 533 804)
Taxation	(315 122)	27 483	–	1 602	–	(8 710)	–	(39)	–	(294 785)
Loss for the year	(6 622 196)	26 659	(3 286)	(4 121)	(174 992)	22 396	(88 489)	19 158	(3 719)	(6 828 589)
Loss for the year attributable to:										
Equity holders of the parent	(6 646 383)	38 494	(3 286)	(4 121)	(174 992)	22 396	(88 489)	12 343	(3 719)	(6 847 756)
Non-controlling interest	24 187	(11 835)	–	–	–	–	–	6 815	–	19 167
Loss for the period attributable to the Group	(6 646 383)	38 494	(3 286)	(4 121)	(174 992)	22 396	(88 489)	12 343	(3 719)	(6 847 756)

R'000	Before VAS Operations Note 1	Before VAS Operations Note 2	Equity compen-sation benefit scheme Note 3	VAS Operations Transaction: VAS Operations consolidation entries and subsequent events Note 4	VAS Operations Transaction: VAS Operations loss on disposal Note 5	VAS Operations Transaction: VAS Operations disposal application of proceeds Note 6	VAS Operations Transaction: VAS Operations put/call options Note 7	AV Technology Note 8	Transaction costs for VAS Operations Transaction Note 9	*Pro forma* after the VAS Operations Transaction
Headline earnings adjustments:	3 792 743	(102 576)	–	–	174 992	–	90 482	–	–	3 955 641
Profit on disposal of property, plant and equipment	(758)	(6)	–	–	–	–	–	–	–	(764)
Loss on disposal of investment	–	–	–	–	174 992	–	–	–	–	174 992
Impairment of property, plant and equipment	1 441	–	–	–	–	–	–	–	–	1 441
Impairment of intangible assets	3 680	–	–	–	–	–	–	–	–	3 680
Foreign currency translation reserve recycled to profit or loss	(144)	–	–	–	–	–	–	–	–	(144)
Impairments on investments	2 661 998	(28 567)	–	–	–	–	90 482	–	–	2 723 913
Fair value uplift on conversion from an associate to a subsidiary	(27 741)	–	–	–	–	–	–	–	–	(27 741)
Profit on disposal of property, plant and equipment in associate	(5 524)	–	–	–	–	–	–	–	–	(5 524)
Impairment of goodwill	124 400	(74 003)	–	–	–	–	–	–	–	50 397
Impairment of investment within associate equity accounted earnings	47 174	–	–	–	–	–	–	–	–	47 174
Impairment of property, plant and equipment in associate	801 049	–	–	–	–	–	–	–	–	801 049
Impairment of intangible assets in associate	187 168	–	–	–	–	–	–	–	–	187 168
Headline earnings	(2 853 640)	(64 082)	(3 286)	(4 121)	–	22 396	1 993	12 343	(3 719)	(2 892 115)
Profit for the period attributable to the Group	(6 646 383)	38 494	(3 286)	(4 121)	(174 992)	22 396	(88 489)	12 343	(3 719)	(6 847 756)

				VAS Operations Transaction						
R'000	Before Note 1	VAS Operations Note 2	Equity compen-sation benefit scheme Note 3	VAS Operations consolidation entries and subsequent events Note 4	VAS Operations loss on disposal Note 5	VAS Operations disposal application of proceeds Note 6	VAS Operations put/call options Note 7	AV Technology Note 8	Transaction costs for VAS Operations Transaction Note 9	*Pro forma* after the VAS Operations Transaction
Core headline earnings adjustments:	3 863 228	(121 898)	–	–	174 992	–	90 482	9 032	–	4 015 836
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	70 485	(19 322)	–	–	–	–	–	9 032	–	60 195
Headline earnings adjustments	3 792 743	(102 576)	–	–	174 992	–	90 482	–	–	3 955 641
Core headline earnings	(2 783 155)	(83 404)	(3 286)	(4 121)	–	22 396	1 993	21 375	(3 719)	(2 831 921)
Earnings per share for profit attributable to:										
Equity holders (cents)										
– Basic	(727.81)	–	–	–	–	–	–	–	–	(749.86)
– Headline	(312.49)	–	–	–	–	–	–	–	–	(316.70)
– Core headline	(304.77)	–	–	–	–	–	–	–	–	(310.11)
Number of shares	904 201 466	–	–	–	–	–	–	–	–	904 201 466
Weighted number of shares	913 208 055	–	–	–	–	–	–	–	–	913 208 055

BLUE LABEL GROUP *PRO FORMA* INCOME STATEMENT

For the year ended 31 May 2019

R'000	Before 3G Distribution Note 1	Note 10	Equity compen-sation benefit scheme Note 11	3G Distribution Transaction: 3G Distribution profit on disposal Note 12	3G Distribution Transaction: 3G Distribution disposal application of proceeds Note 13	Transaction costs for the 3G Distribution Transaction Note 14	*Pro forma* after the 3G Distribution Transaction Note 15	*Pro forma* after the Proposed Transactions
Revenue	25 869 433	(2 237 399)	–	–	–	–	23 632 034	23 307 721
Other income	120 914	2 077 585	–	–	–	–	2 198 499	2 202 680
Changes in inventories of finished goods and finance costs incurred in the generation of revenue	(23 223 312)	95	–	–	–	–	(23 223 217)	(23 155 714)
Employee compensation and benefit expense	(594 183)	44 775	593	–	–	–	(548 815)	(483 289)
Depreciation and amortisation	(253 016)	3 316	–	–	–	–	(249 700)	(208 098)
Impairments and fair value losses	(1 212 089)	–	–	–	–	–	(1 212 089)	(1 190 323)
Other expenses	(498 083)	34 364	(2 373)	4 340	–	(3 719)	(465 471)	(597 309)
Operating profit	209 664	(77 264)	(1 780)	4 340	–	(3 719)	131 241	(121 499)
Finance costs	(245 957)	3 766	–	–	63 781	–	(178 410)	(147 067)
Finance income	99 705	(13 874)	–	–	–	–	85 831	78 834
Impairments on associates and joint venture	(2 669 076)	–	–	–	–	–	(2 669 076)	(2 669 076)
Share of losses from associates and joint ventures	(3 701 410)	–	–	–	–	–	(3 701 410)	(3 699 746)
(Loss)/profit before taxation	(6 307 074)	(87 372)	(1 780)	4 340	63 781	(3 719)	(6 331 824)	(6 558 554)
Taxation	(315 122)	23 216	–	(12 648)	(17 859)	–	(322 413)	(302 076)
(Loss)/profit for the year	(6 622 196)	(64 156)	(1 780)	(8 308)	45 922	(3 719)	(6 654 237)	(6 860 630)
(Loss)/profit for the year attributable to:								
Equity holders of the parent	(6 646 383)	(64 158)	(1 780)	(8 308)	45 922	(3 719)	(6 678 426)	(6 879 799)
Non-controlling interest	24 187	2	–	–	–	–	24 189	19 169
(Loss)/profit for the period attributable to the Group	(6 646 383)	(64 158)	(1 780)	(8 308)	45 922	(3 719)	(6 678 426)	(6 879 799)
Headline earnings adjustments:	3 792 743	–	–	8 308	–	–	3 801 051	3 963 949
Profit on disposal of property, plant and equipment	(758)	(1)	–	–	–	–	(759)	(765)
Loss and loss on disposal of investment	–	–	–	8 308	–	–	8 308	183 303
Impairment disposal of property, plant and equipment	1 441	1	–	–	–	–	1 442	1 442
Impairment of intangible assets	3 680	–	–	–	–	–	3 680	3 680
Foreign currency translation reserve recycled to profit or loss	(144)	–	–	–	–	–	(144)	(144)
Impairments on investments	2 661 998	–	–	–	–	–	2 661 998	2 723 913
Fair value uplift on conversion from an associate to a subsidiary	(27 741)	–	–	–	–	–	(27 741)	(27 741)
Profit on disposal of property, plant and equipment in associate	(5 524)	–	–	–	–	–	(5 524)	(5 524)
Impairment of goodwill	124 400	–	–	–	–	–	124 400	50 397
Impairment of investment within associate equity accounted earnings	47 174	–	–	–	–	–	47 174	47 174
Impairment of property, plant and equipment in associate	801 049	–	–	–	–	–	801 049	801 049

R'000	Before 3G Distribution Note 1	Note 10	Equity compen-sation benefit scheme Note 11	3G Distribution Transaction 3G Distribution profit on disposal Note 12	3G Distribution disposal application of proceeds Note 13	Transaction costs for the 3G Distribution Transaction Note 14	*Pro forma* after the 3G Distribution Transaction Note 15	*Pro forma* after the Proposed Transactions
Impairment of intangible assets in associate	187 168	–	–	–	–	–	187 168	187 168
Headline earnings	(2 853 640)	(64 158)	(1 780)	–	45 922	(3 719)	(2 877 375)	(2 915 850)
(Loss)/profit for the period attributable to the Group	(6 646 383)	(64 158)	(3 443)	(8 311)	45 922	(3 719)	(6 678 426)	(6 879 799)
Core headline earnings adjustments:	3 863 228	(7 252)	–	8 311	–	–	3 864 284	4 016 892
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest	70 485	(7 252)	–	–	–	–	63 233	52 943
Headline earnings adjustments	3 792 743	–	–	8 311	–	–	3 801 054	3 963 949
Core headline earnings	(2 783 155)	(71 410)	(3 443)	–	45 922	(3 719)	(2 814 142)	(2 862 907)
Earnings per share for profit attributable to:								
Equity holders (cents)								
– Basic	(727.81)	–	–	–	–	–	(731.31)	(753.37)
– Headline	(312.49)	–	–	–	–	–	(315.08)	(319.30)
– Core headline	(304.77)	–	–	–	–	–	(308.16)	(313.50)
Number of shares	904 201 466	–	–	–	–	–	904 201 466	904 201 466
Weighted number of shares	913 208 000	–	–	–	–	–	913 208 000	913 208 000

NOTES AND ASSUMPTIONS TO THE BLUE LABEL GROUP *PRO FORMA* INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 31 MAY 2019

1. The 'Before' column has been extracted without adjustment from the published audited Blue Label Group financial results for the year ended 31 May 2019.

VAS Operations Transaction

2. The "VAS Operations" column represents the disposal of the VAS Operations and is based on the special purpose combined carve-out historical financial information of the VAS Operations for the year ended 31 May 2019 included in Annexure 1 to this Circular.

3. The "Equity compensation benefit scheme" column represents the differences between the accounting treatment of the Group's equity compensation benefit scheme by the Blue Label Group versus the VAS Operations. In terms of IFRS 2: Share-based Payments, the equity compensation benefit scheme is treated as equity settled for purposes of preparing the published audited Blue Label Group financial results for the year ended 31 May 2019, while it is treated as cash settled for purposes of preparing the special purpose combined carve-out historical financial information of the VAS Operations. Accordingly, the *pro forma* income statement is adjusted as follows:

   - R1.2 million of the R594.1 million employee compensation and benefit expense recognised by the Blue Label Group relates to the equity compensation benefit attributable to the VAS Operations and are reversed as a consequence of the VAS Operations Transaction. The relevant adjustment has been extracted from the underlying audited financial information contained in the published audited Blue Label Group financial results for the year ended 31 May 2019. No adjustment is made for tax as this was originally adjusted directly against equity.
   - R1.4 million written back in relation to the cash settled equity compensation benefit included in the R63.2 million employee compensation and benefit expense per the special purpose combined carve-out historical financial information of the VAS Operations is reversed.
   - R5.9 million of the R104 million impairment and fair value losses per the special purpose combined carve-out historical financial information of the VAS Operations relates to the fair value movement of the investment in Blue Label shares which is carried as a financial asset at fair value through profit and loss and is consequently reversed.

4. The "VAS Operations consolidation entries and subsequent events" column represents the reversal of the management fee charged by the Blue Label Group to the VAS operations on the basis that such costs will continue to be incurred by the Blue Label Group post the VAS Operations Transaction. The adjustment is based on the special purpose combined carve-out historical financial information of the VAS Operations. Tax is adjusted accordingly at 28%.

   No adjustment to the *pro forma* financial information has been made for the following subsequent events on the basis that the Directors of the Company deemed it not to be misleading not to make an adjustment:

   - No *pro forma* adjustments have been made pursuant to Blue Label restructuring its holding in the VAS Operations as explained in paragraph 3 to the Circular on the basis that the *pro forma* financial information reflects the disposal of the entire VAS Operations and that the non-controlling interest arising upon Malik's subscription in Blue Label Mobile is temporary in nature.
   - No *pro forma* adjustments have been made in relation to the acquisition of Hyve Mobile and MCA by Blue Label Mobile on the basis that acquisition price paid to date will be reimbursed, and consequently it is not expected to impact the *pro forma* financial information. The Hyve transaction was not effective as at 31 May 2019 and consequently the Hyve acquisition has not been accounted for in the published financial information of Blue Label for the year ended 31 May 2019. The first tranche of payment due to the shareholders of Hyve was for R80 million, of which R57 million plus an escalation amount of R1.6 million has been paid to date subsequent 31 May 2019 and as at the Last Practical Date of this Circular. On payment of the balance of R23 million, Blue Label Mobile's 50% holding in Hyve will become effective, i.e. subsequent to the financial year ended 31 May 2019. The balance is still outstanding as at the Last Practical Date of this Circular.

5. **The disposal of the VAS Operations results in the recognition of a loss on the sale of the VAS Operations calculated as follows:**

	R in 000s
Cash consideration for the VAS Operations Sale Interest	350 000
Deferred consideration*	–
VAS Operations loan claims acquired (refer to note 4 and 6 of the Blue Label Group *pro forma* statement of financial position)	(125 452)
Cash consideration excluding VAS Operations loan claims	224 548
Total ordinary shareholders' equity of VAS Operations (refer to note 2 of the Blue Label Group *pro forma* statement of financial position)	566 972
Equity compensation benefit scheme adjustment (refer to note 3 of the Blue Label Group *pro forma* statement of financial position)	(2 683)
Post financial year end dividend declaration (refer to note 4 of the Blue Label Group *pro forma* statement of financial position)	(323 387)
Put option (refer to note 5 of the Blue Label Group *pro forma* statement of financial position)	158 638
Loss on sale of VAS Operations	(174 992)

** No value is attached to the R100 million deferred consideration receivable on the basis that it is assumed that the solvency and liquidity of Cell C is unproven for purposes of presenting the* pro forma *financial effects. The payment of the R100 million deferred consideration is contingent on Cell C passing the solvency and liquidity test. Please refer to paragraph 4 for further details regarding the VAS Operations Transactions and its related suspensive conditions.*

Refer to paragraph 26.2 to the Circular, together with the *pro forma* financial information presented later in this appendix, for the impact on the *pro forma* financial information in the event that the solvency and liquidity of Cell C is proven.

It is assumed that no deferred tax asset in relation to the loss on the disposal of the VAS Operations is recognised on the basis that there may not be sufficient future capital gains to offset these capital losses.

6. It is assumed that the VAS Operations cash consideration amounting to R350 million will be applied against borrowings with a weighted average cost of borrowings of between 9.45% to 9.75% p.a. with a resultant interest cost saving of R31.1 million. Tax is adjusted accordingly at 28%.

7. In the event that the solvency and liquidity of Cell C is unproven, Blue Label will be obligated to exercise the put option in respect of 40% of the shares in Airvantage SA and AV Technology. The *pro forma* financial information is adjusted as follows:

- Impairments and fair value losses are adjusted by R90.5 million, being the impairment of the assumed fair value following the settlement of the put option liability attributable to Airvantage SA. In the event that the solvency and liquidity of Cell C is unproven, it is assumed that it will have an adverse impact on Airvantage SA's operations as the Airvantage SA business is currently entirely dependent on Cell C and it has been assumed that Airvantage SA would not continue to trade and hence no trading results have been included in the *pro forma* financial information. Refer to note 7 of the Blue Label Group *pro forma* statement of financial information for more information.
- The 64% equity interest arising in AV Technology, is treated as an investment in a subsidiary and is consolidated in terms of IAS 27: Consolidated and Separate Financial Statements. This is represented by the 24% equity interest which Blue Label Mobile will transfer to Blue Label, plus the 40% equity interest when the put option is exercised in the event that the solvency and liquidity of Cell C is unproven.
- The fair value loss relating to the put options included in the special purpose combined carve-out historical financial information of the VAS Operations for the year ended 31 May 2019 is reversed.

	R'000
Impairment of put option relating to Airvantage SA (as explained above)	(90 482)
Reversal of fair value loss relating to the remeasurement of the put option included in the net fair value gains/losses	16 818
Net impact on impairments and fair value losses	(73 664)
Reversal of the remeasurement of the put option included finance costs	(14 825)
Total impact on profit before tax	(88 489)

Please refer to paragraph 4 of this Circular for further details on the put option in respect of 40% of the shares in Airvantage SA and AV Technology

8. The financial information for AV Technology has been extracted from the special purpose historical financial information of AV Technology for the 12 months ended 31 May 2019, adjusted for the assumed amortisation and related tax charges detailed below. The special purpose historical financial information and the Independent Reporting Accountant's audit report thereon are available for inspection as stated in paragraph 33 of this Circular. The functional currency of AV Technology is United States Dollars (USD) and the results for the 12 months ended 31 May 2019 have been translated at the twelve-month average exchange rate to the South African Rand of R14.07/$.

	R'000
AV Technology profit after tax for the 12 months ended 31 May 2019 (Profit after tax USD2.36 million x R14.07/$) *	33 270
Assumed amortisation of identified definite life intangible assets for the 12 months ended 31 May 2019	(16 603)
Assumed deferred tax on the assumed amortisation for the 12 months ended 31 May 2019 at 15%, being the Mauritius corporate tax rate	2 491
Profit for the year per the Blue Label Group *pro forma* income statement	19 158

** The financial information for AV Technology has been extracted from the special purpose historical financial information of AV Technology for the 12 months ended 31 May 2019. The functional currency of AV Technology is United States Dollars (USD) and the results for the 12 months ended 31 May 2019 have been translated at the twelve-month average exchange rate to the South African Rand of R14.06/$.*

The purchase consideration for AV Technology has been assumed to be allocated between identifiable intangible assets and notional goodwill based on a provisional fair value allocation exercise. The identifiable intangible assets are assumed to be amortised over their respective useful lives as determined within the provisional fair value allocation exercise. The fair value exercise will need to be performed on the effective date when Blue Label regains control of AV Technology and may differ from the assumptions underlying these *pro forma* effects.

	R'000
AV Technology shareholders equity as at 31 May 2019*	30 803
Gross identifiable intangible assets, net of deferred tax, based on a provisional fair value allocation exercise.	
Definite life intangible assets to be amortised over an average assumed useful life of 5 years	86 681
Deferred taxation on intangible assets identified	(13 002)
Subtotal	104 482
Non-controlling interest	(37 614)
Blue Label's equity interest at 64%	66 868
Goodwill	1 288
Purchase consideration (fair value of AV Technology put option)	68 156
Assumed amortisation for the 12 months ended 31 May 2019	(16 603)
Deferred tax on the assumed amortisation for the 12 months ended 31 May 2019	2 491

** The financial information for AV Technology has been extracted from the special purpose historical financial information of AV Technology for the 12 months ended 31 May 2019. The functional currency of AV Technology is United States Dollars (USD) and the results for the 12 months ended 31 May 2019 have been translated at the closing exchange rate to the South African rand of R14.07/$ and the shareholders equity as at 31 May 2019 has been translated at R14.69/$.*

Refer to paragraph 26.2 to the Circular, together with the *pro forma* financial information presented later in this appendix, for the impact on the *pro forma* financial information in the event that the solvency and liquidity of Cell C is proven.

9. The "Transaction costs for the VAS Operations Transaction" column represents assumed non-recurring transaction costs of R3.72 million which have been apportioned equally between the VAS Operations Transaction and the 3G Distribution Transaction.

3G Distribution Transaction

10. The "3G Distribution" column represents the disposal of 3G Distribution and is based on the special purpose combined carve-out historical financial information of 3G Distribution for the year ended 31 May 2019 included in Annexure 3A to this Circular.

11. The "Equity compensation benefit scheme" column represents the differences between the accounting treatment of the Group's equity compensation benefit scheme by the Blue Label Group versus 3G Distribution. In terms of IFRS 2: Share-based Payments, the equity compensation benefit scheme is treated as equity settled for purposes of preparing the published audited Blue Label Group financial results for the year ended 31 May 2019, while it is treated as cash settled for purposes of preparing the special purpose combined carve-out historical financial information of 3G Distribution. Accordingly, the *pro forma* income statement is adjusted as follows:

    - R0.6 million of the R594.1 million employee compensation and benefit expenses recognised by the Blue Label Group relates to the equity compensation benefit attributable to 3G Distribution and are reversed as a consequence of the 3G Distribution Transaction. The relevant adjustment has been extracted from the underlying audited financial information contained in the published audited Blue Label Group financial results for the year ended 31 May 2019. No adjustment for tax is made as this was originally adjusted directly against equity.
    - R2.4 million of the R34 million other expenses per the special purpose combined carve-out historical financial information of 3G Distribution relates to the fair value movement of the investment in Blue Label shares which is carried as a financial asset at fair value through profit and loss and is consequently reversed.

12. The disposal of 3G Distribution results in the recognition of a profit on the sale of 3G Distribution calculated as follows:

	R'000
Cash consideration before tax for 3G Distribution	544 000
Total consideration	544 000
Total ordinary shareholders' equity of 3G Distribution (refer to note 10 of the Blue Label Group *pro forma* statement of financial position)	541 055
Equity compensation benefit scheme adjustment (refer to note 11 of the Blue Label Group *pro forma* statement of financial position)	(1 395)
Profit on sale of 3G Distribution	4 340

    The capital gains tax charge of R12.7 million has been estimated based on a preliminary calculation of the base cost of 3G Distribution and CEC as at 31 May 2019. This tax charge will be updated on the effective date of the 3G Distribution Transaction.

13. It is assumed that the 3G Distribution cash consideration amounting to R544 million, net of the related tax charge of R12.7 million, will be applied against borrowings with a weighted average cost of borrowings of 10.9% p.a. with a resultant interest cost saving of R63.7 million. Tax is adjusted accordingly at 28%.

14. The "Transaction costs for the 3G Distribution Transaction" column represents assumed non-recurring transaction costs of R3.72 million which have been apportioned equally between the VAS Operations Transaction and the 3G Distribution Transaction.

15. All adjustments are of a recurring nature except where otherwise stated.

BLUE LABEL GROUP *PRO FORMA* STATEMENT OF FINANCIAL POSITION

For the year ended 31 May 2019

R'000	Before VAS Operations Note 1	Note 2	Equity compen-sation benefit scheme Note 3	VAS Operations Transaction: VAS Operations consoli-dation entries and subsequent events Note 4	VAS Operations Transaction: VAS Operations put/call options Note 5	VAS Operations Transaction: VAS Operations disposal Note 6	VAS Operations Transaction: VAS Operations put/call options Note 7	AV Technology Note 8	Transaction costs for VAS Operations Transaction Note 9	*Pro forma* after the VAS Operations Transaction
ASSETS										
Non-current assets	3 477 070	(602 410)	–	–	–	–	68 156	20 186	–	2 963 002
Property, plant and equipment	237 657	(7 942)	–	–	–	–	–	373	–	230 088
Intangible assets	1 083 328	(339 773)	–	–	–	–	–	86 681	–	830 236
Goodwill	1 234 995	(248 013)	–	–	–	–	–	1 288	–	988 270
Investments in and loans to associates, joint ventures and subsidiaries	218 842	(6 224)	–	–	–	–	68 156	(68 156)	–	212 618
Loans receivable	41 760	–	–	–	–	–	–	–	–	41 760
Trade and other receivables	–	–	–	–	–	–	–	–	–	–
Advances to customers	584 440	–	–	–	–	–	–	–	–	584 440
Deferred taxation assets	76 048	(458)	–	–	–	–	–	–	–	75 590
Current assets	8 604 302	(511 776)	3 803	323 387	–	(125 452)	(158 638)	35 575	(3 719)	8 167 482
Loans to associate	–	(5 650)	–	–	–	–	–	–	–	(5 650)
Inventories	1 514 649	(153)	–	–	–	–	–	–	–	1 514 496
Loans receivable	190 769	(202 131)	–	323 387	–	(125 452)	–	–	–	186 573
Trade receivables	4 257 266	(215 293)	–	–	–	–	–	26 085	–	4 068 058
Advances to customers	1 032 657	–	–	–	–	–	–	–	–	1 032 657
Financial asset at fair value through profit and loss	204 739	(3 803)	3 803	–	–	–	–	–	–	204 739
Current tax assets	18 626	(505)	–	–	–	–	–	–	–	18 121
Cash and cash equivalents	1 385 596	(84 241)	–	–	–	–	(158 638)	9 490	(3 719)	1 148 488
Total assets	12 081 372	(1 114 186)	3 803	323 387	–	(125 452)	(90 482)	55 761	(3 719)	11 130 484

R'000	Before Note 1	VAS Operations Note 2	Equity compen-sation benefit scheme Note 3	VAS Operations consoli-dation entries and subsequent events Note 4	VAS Operations Transaction: VAS Operations put/call options Note 5	VAS Operations disposal Note 6	VAS Operations put/call options Note 7	AV Technology Note 8	Transaction costs for VAS Operations Transaction Note 9	*Pro forma* after the VAS Operations Transaction
EQUITY AND LIABILITIES										
Capital and reserves	2 491 562	(697 738)	2 683	323 387	(158 638)	224 548	68 156	37 614	(3 719)	2 287 855
Parent contribution	7 599 016	(551 446)	–	–	(158 638)	–	158 638	–	–	7 047 570
Other reserves	(2 824 740)	(15 526)	2 683	–	–	–	–	–	–	(2 837 583)
Retained earnings	(2 405 031)	–	–	323 387	–	224 548	(90 482)	–	(3 719)	(1 951 297)
Total ordinary shareholders' equity	2 369 245	(566 972)	2 683	323 387	(158 638)	224 548	68 156	–	(3 719)	2 258 690
Non-controlling interest	122 317	(130 766)	–	–	–	–	–	37 614	–	29 165
Non-current liabilities	1 951 920	(88 152)	852	–	–	–	–	13 002	–	1 877 622
Deferred taxation liabilities	236 400	(87 300)	–	–	–	–	–	13 002	–	162 102
Borrowings	1 715 520	–	–	–	–	–	–	–	–	1 715 520
Equity compensation liability	–	(852)	852	–	–	–	–	–	–	–
Current liabilities	7 637 890	(328 296)	268	–	158 638	(350 000)	(158 638)	5 145	–	6 965 007
Trade and other payables	5 371 386	(159 775)	–	–	–	–	–	3 659	–	5 215 270
Financial guarantee contracts	243 492	–	–	–	–	–	–	–	–	243 492
Provisions	24 947	–	–	–	–	–	–	–	–	24 947
Financial liabilities at fair value through profit and loss	460 354	(158 638)	–	–	158 638	–	(158 638)	–	–	301 716
Current tax liabilities	9 104	(9 615)	–	–	–	–	–	1 486	–	975
Borrowings	1 520 764	–	–	–	–	(350 000)	–	–	–	1 170 764
Bank overdraft	7 843	–	–	–	–	–	–	–	–	7 843
Equity compensation liability	–	(268)	268	–	–	–	–	–	–	–
Total equity and liabilities	12 081 372	(1 114 186)	3 803	323 387	–	(125 452)	(90 482)	55 761	(3 719)	11 130 484
NAV per share	262.03	–	–	–	–	–	–	–	–	249.80
TNAV per share	(2.78)	–	–	–	–	–	–	–	–	40.32
Number of shares	904 201 466	–	–	–	–	–	–	–	–	904 201 466
Weighted number of shares	913 208 055	–	–	–	–	–	–	–	–	913 208 055

PRO FORMA BLUE LABEL STATEMENT OF FINANCIAL POSITION

For the year ended 31 May 2019

	Before 3G Distribution		3G Distribution Transaction: Equity compen-sation benefit scheme	3G Distribution Transaction: 3G Distribution disposal	3G Distribution Transaction: Transaction costs for the 3G Distribution Transaction	*Pro forma* after the 3G Distribution Transaction	*Pro forma* after the Proposed Transactions
ASSETS							
Non-current assets	3 477 070	(139 001)	–	–	–	3 338 069	2 824 001
Property, plant and equipment	237 657	(6 553)	–	–	–	231 104	223 535
Intangible assets	1 083 328	(84 391)	–	–	–	998 937	745 845
Goodwill	1 234 995	(47 212)	–	–	–	1 187 783	941 058
Investments in and loans to associates and joint ventures	218 842	(845)	–	–	–	217 997	211 773
Loans receivable	41 760	–	–	–	–	41 760	41 760
Trade and other receivables	–	–	–	–	–	–	–
Advances to customers	584 440	–	–	–	–	584 440	584 440
Deferred taxation assets	76 048	–	–	–	–	76 048	75 590
Current assets	8 604 302	(871 343)	1 860	–	(3 719)	7 731 100	7 294 280
Loans to associate	–	–	–	–	–	–	(5 650)
Inventories	1 514 649	(298 861)	–	–	–	1 215 788	1 215 635
Loans receivable	190 769	(111 528)	–	–	–	79 241	75 045
Trade and other receivables	4 257 266	(427 780)	–	–	–	3 829 486	3 640 278
Advances to customers	1 032 657	–	–	–	–	1 032 657	1 032 657
Financial asset at fair value through profit and loss	204 739	(4 051)	1 860	–	–	202 548	202 548
Current tax assets	18 626	(2 504)	–	–	–	16 122	15 617
Cash and cash equivalents	1 385 596	(26 619)	–	–	(3 719)	1 355 258	1 118 150
Total assets	12 081 372	(1 010 344)	1 860	–	(3 719)	11 069 169	10 118 281

	Before 3G Distribution		3G Distribution Transaction Equity compen-sation benefit scheme	3G Distribution disposal	Transaction costs for the 3G Distribution Transaction	*Pro forma* after the 3G Distribution Transaction	*Pro forma* after the Proposed Transactions
EQUITY AND LIABILITIES							
Capital and reserves	2 491 562	(541 059)	1 395	531 352	(3 719)	2 479 531	2 275 824
Parent contribution	7 599 016	–	–	–	–	7 599 016	7 047 570
Other reserves	(2 824 740)	(4 736)	1 395	–	–	(2 828 081)	(2 840 924)
Retained earnings	(2 405 031)	(536 319)	–	531 352	(3 719)	(2 413 717)	(1 959 983)
Total ordinary shareholders' equity	2 369 245	(541 055)	1 395	531 352	(3 719)	2 357 218	2 246 663
Non-controlling interest	122 317	(4)	–	–	–	122 313	29 161
Non-current liabilities	1 951 920	(15 898)	–	(531 352)	–	1 404 670	1 330 372
Deferred taxation liabilities	236 400	(15 898)	–	–	–	220 502	146 204
Borrowings	1 715 520	–	–	(531 352)	–	1 184 168	1 184 168
Equity compensation liability	–	–	–	–	–	–	–
Current liabilities	7 637 890	(453 387)	465	–	–	7 184 968	6 512 083
Trade and other payables	5 371 386	(434 818)	–	–	–	4 936 568	4 780 452
Financial guarantee contracts	243 492	–	–	–	–	243 492	243 492
Provisions	24 947	(4 737)	–	–	–	20 210	20 210
Financial liabilities at fair value through profit and loss	460 354	–	465	–	–	460 819	302 181
Current tax liabilities	9 104	(2 646)	–	–	–	6 458	(1 671)
Borrowings	1 520 764	(2 909)	–	–	–	1 517 855	1 167 855
Bank overdraft	7 843	(7 812)	–	–	–	31	31
Equity compensation liability	–	(465)	–	–	–	(465)	(465)
Total equity and liabilities	12 081 372	(1 010 344)	1 860	–	(3 719)	11 069 169	10 118 281
NAV per share	262.03	–	–	–	–	260.70	248.47
TNAV per share	(2.78)	–	–	–	–	10.45	53.55
Number of shares	904 201 466	–	–	–	–	904 201 466	904 201 466
Weighted number of shares	913 208 055	–	–	–	–	913 208 055	913 208 055

NOTES AND ASSUMPTIONS TO THE BLUE LABEL GROUP *PRO FORMA* STATEMENT OF FINANCIAL POSITION FOR THE FINANCIAL YEAR ENDED 31 MAY 2019

1. The 'Before' column has been extracted without adjustment from the published audited Blue Label Group financial results for the year ended 31 May 2019.

VAS Operations Transaction

2. The "VAS Operations" column represents the disposal of the VAS Operations and is based on the special purpose combined carve-out historical financial information of the VAS Operations for the year ended 31 May 2019 included in Annexure 1 to this Circular.
3. The "Equity compensation benefit scheme" column represents the differences between the accounting treatment of the Group's equity compensation benefit scheme by the Blue Label Group versus the VAS Operations. In terms of IFRS 2: Share-based Payments, the equity compensation benefit scheme is treated as equity settled for purposes of preparing the published audited Blue Label Group financial results for the year ended 31 May 2019, while it is treated as cash settled for purposes of preparing the special purpose combined carve-out historical financial information of the VAS Operations. Accordingly, the *pro forma* statement of financial position is adjusted as follows:
   - R3.8 million relating to the investment in Blue Label shares which is carried as a financial asset at fair value through profit and loss, per the special purpose combined carve-out historical financial information of the VAS Operations, is reversed.
   - Non-current and current equity compensation liabilities amounting to R0.9 million and R0.3 million respectively, per the special purpose combined carve-out historical financial information of the VAS Operations, is reversed.
   - Reserves are adjusted accordingly by the net impact of R2.7 million related to the adjustments noted above.
4. The "VAS Operations consolidation entries and subsequent events" column represents dividends declared by the VAS Operations with Blue Label's share totalling R323.4 million subsequent to 31 May 2019 and pursuant to Blue Label restructuring its holding in the VAS Operations as explained in paragraph 3 to the Circular. Consequently, loans receivable is adjusted as follows:
   - R197.9m representing amounts due to the VAS Operations by the Blue Label Group being settled; and
   - R125.5 representing the proportion of the dividend declared to the Blue Label Group but which remains unpaid.

   As discussed in note 4 to the Blue Label Group *pro forma* income statement no *pro forma* adjustments have been made for any other subsequent events.
5. The "VAS Operations put/call options" column represents the reversal of the put option liability recognised by the VAS Operations in terms of the Airvantage Agreements, and the reinstatement thereof, on the basis that Blue Label will be obligated to meet the commitment relating to the put option on 40% of the shares in Airvantage SA and AV Technology, assuming the solvency and liquidity of Cell C is unproven. Please refer to paragraph 4 of this Circular for further details regarding the put/call options.
6. The "VAS Operations disposal" column represent the cash consideration amounting to R350 million which is assumed to be applied against borrowings. The *pro forma* financial information is adjusted accordingly.

	R in 000s
Cash consideration for the VAS Operations applied against borrowings	350 000
Cash consideration applied to VAS Operations loan claims	(125 452)
Cash consideration excluding VAS Operations loan claims	224 548

   Refer to paragraph 26.2 to the Circular, together with the *pro forma* financial information presented later in this appendix, for the impact on the *pro forma* financial information in the event that the solvency and liquidity of Cell C is proven.
7. In the event that the solvency and liquidity of Cell C is unproven, Blue Label will be obligated to meet the commitment relating to the put option on 40% of the shares in Airvantage SA and AV Technology. The *pro forma* financial information is adjusted as follows:
   - Cash and cash equivalents and financial liabilities at fair value through profit and loss are adjusted by R158.6m, being the assumed fair value of the put liability, on the assumption that the put option is exercised in terms of the Airvantage Agreements and settled accordingly.
   - Other reserves are adjusted by R158.6m, being the reversal of the put option originally recognised by the VAS Operations against reserves (refer note 5 above).
   - Retained earnings are adjusted by R90.5 million, being the impairment of the assumed fair value following the settlement of the put option liability attributable to Airvantage SA as discussed in note 7 to the *pro forma* income statement.
   - The 64% equity interest arising in AV Technology, is treated as an investment in a subsidiary and is consolidated in terms of IAS 27: Consolidated and Separate Financial Statements as discussed in note 7 to the *pro forma* income statement.

	R in 000s
Investment in AV Technology	68 156
Impairment of Airvantage South Africa	90 482
Full value of put option	158 638

8. The financial information for AV Technology has been extracted from the special purpose historical financial information of AV Technology for the 12 months ended 31 May 2019. The functional currency of AV Technology is United States Dollars (USD) and the results for the 12 months ended 31 May 2019 have been translated at the closing exchange rate to the South African Rand of R14.69/$.

   The purchase consideration for AV Technology has been assumed to be allocated between identifiable intangible assets and notional goodwill based on a provisional fair value allocation exercise. The identifiable intangible assets are assumed to be amortised over their respective useful lives as determined within the provisional fair value allocation exercise. This is a provisional fair value allocation and an updated fair value exercise will need to be performed on the effective date when Blue Label regains control of AV Technology and may differ from the assumptions underlying these *pro forma* effects.

	R'000
AV Technology shareholders equity as at 31 May 2019*	
(Shareholders equity USD2.1 million x R14.69/$)	30 803
Gross identifiable intangible assets, net of deferred tax, based on a provisional fair value allocation exercise.	
Definite life intangible assets to be amortised over an average assumed useful life of 5 years	86 681
Deferred taxation on intangible assets identified	(13 002)
Subtotal	104 482
Non-controlling interest	(37 614)
Blue Label's equity interest at 64%	66 868
Goodwill	1 288
Purchase consideration	68 156

* *The financial information for AV Technology has been extracted from the special purpose historical financial information of AV Technology for the 12 months ended 31 May 2019. The functional currency of AV Technology is United States Dollars (USD) and the results for the 12 months ended 31 May 2019 have been translated at the average exchange rate to the South African rand of R14.07/$ and the shareholders equity as at 31 May 2019 has been translated at R14.69/$.*

   Refer to paragraph 26.2 to the Circular, together with the *pro forma* financial information presented later in this appendix, for the impact on the *pro forma* financial information in the event that the solvency and liquidity of Cell C is proven.

9. The "Transaction costs for the VAS Operations Transaction" column represents assumed non-recurring transaction costs of R3.72 million which have been apportioned equally between the VAS Operations Transaction and the 3G Distribution Transaction which is assumed to be settled from cash and cash equivalents.

3G Distribution Transaction

10. The "3G Distribution" column represents the disposal of 3G Distribution and is based on the special purpose combined carve-out historical financial information of 3G Distribution for the year ended 31 May 2019 included in Annexure 3A to this Circular.

11. The "Equity compensation benefit scheme" column represents the differences between the accounting treatment of the Group's equity compensation benefit scheme by the Blue Label Group versus the VAS Operations. In terms of IFRS 2: Share-based Payments, the equity compensation benefit scheme is treated as equity settled for purposes of preparing the published audited Blue Label Group financial results for the year ended 31 May 2019, while it is treated as cash settled for purposes of preparing the special purpose combined carve-out historical financial information of the VAS Operations. Accordingly, the *pro forma* statement of financial position is adjusted as follows:

    - R1.9 million relating to the investment in Blue Label shares which is carried as a financial asset at fair value through profit and loss, per the special purpose combined carve-out historical financial information of 3G Distribution, is reversed.
    - Current equity compensation liabilities amounting to R0.5 million, per the special purpose combined carve-out historical financial information of 3G Distribution, is reversed.
    - Reserves are adjusted accordingly by the net impact of R1.4 million related to the adjustments noted above.

12. The "3G Distribution disposal" column represent the cash consideration of R544 million, net of tax of R12.7 million, amounting to R531 million which is assumed to be applied against borrowings. The *pro forma* financial information is adjusted accordingly.

13. The "Transaction costs for the VAS Operations Transaction" column represents assumed non-recurring transaction costs of R3.72 million which have been apportioned equally between the VAS Operations Transaction and the 3G Distribution Transaction which is assumed to be settled from cash and cash equivalents.

***Pro forma* financial information of the Blue Label Group assuming the solvency and liquidity of Cell C is proven**

The tables below sets out a reconciliation between the *pro forma* financial information of the VAS Operations Transaction assuming the solvency and liquidity of Cell C is unproven (as described in paragraph 26 to this Circular) versus the *pro forma* financial information of the VAS Operations Transaction assuming the solvency and liquidity of Cell C is proven (as described in paragraph 26 to this Circular).

Reconciliation of the impact on the Blue Label Group *pro forma* income statement for the year ended 31 May 2019

	R in 000s
***Pro forma* profit for the year after the VAS Operations Transaction, assuming the solvency and liquidity of Cell C is unproven**	(6 828 589)
The following adjustments to the *pro forma* profit for the year after the VAS Operations Transaction is reversed assuming the solvency and liquidity of Cell C is proven:	
Reverse impairment of Airvantage SA on the basis that the cost of the put option on 40% of the shares in Airvantage SA will be transferred to Blue Label Mobile (refer to note 7 of Blue Label Group *pro forma* income statement).	90 482
Reversal of the fair value gains and loss on the put option as the put option will be transferred to Blue Label Mobile	(1 993)
AV Technology will no longer be consolidated on the basis that the cost of the put option on 40% of the shares in AV Technology will be transferred to Blue Label Mobile (refer to note 8 of Blue Label Group *pro forma* income statement).	(19 158)
Adjustment to loss on sale of VAS Operations due to recognising the deferred consideration*	100 000
Additional interest saving based on the additional deferred consideration (additional R100 million deferred consideration calculated at the weighted average cost of debt of between 9.45% to 9.75% p.a. net of tax)	6 610
***Pro forma* profit for the year after the VAS Operations Transaction assuming the solvency and liquidity of Cell C is proven**	(6 652 648)
***Pro forma* Profit for the year attributable to:**	
Equity holder of parent	(6 665 000)
Non-controlling interest	12 352
Earnings per share (cents)	(729.84)
Headline earnings per share (cents)	(317.54)
Core headline earnings per share (cents)	(311.94)

* The adjustment to the loss on sale of the VAS Operations are calculated as follows:

	R in 000s
Cash consideration for the VAS Operations Sale Interest	350 000
Deferred consideration	100 000
VAS Operations loan claims (refer to note 4 and 6 of the Blue Label Group *pro forma* statement of financial position)	(125 452)
Cash consideration excluding VAS Operations loan claims	324 548
Total ordinary shareholders' equity of VAS Operations (refer to note 2 of the Blue Label Group *pro forma* statement of financial position)	566 972
Equity compensation benefit scheme adjustment (refer to note 3 of the Blue Label Group *pro forma* statement of financial position)	(2 683)
Post financial year end dividend declaration (refer to note 4 of the Blue Label Group *pro forma* statement of financial position)	(323 387)
Put option (refer to note 5 of the Blue Label Group *pro forma* statement of financial position)	158 638
Loss on sale of VAS Operations assuming the solvency and liquidity of Cell C is proven	(74 992)
Loss on sale of VAS Operations assuming the solvency and liquidity of Cell C is unproven	(174 992)
Difference	100 000

Impact on the Blue Label Group *pro forma* statement of financial position as at 31 May 2019

	R in 000s
Pro forma total ordinary shareholders' equity as at 31 May 2019 after the VAS Operations Transaction, assuming the solvency and liquidity of Cell C is unproven	2 258 690
The following adjustments to the *pro forma* total ordinary shareholders' as at 31 May 2019 after the VAS Operations Transaction is reversed, assuming the solvency and liquidity of Cell C is proven:	
The put option in respect of the 40% shareholding in Airvantage SA and AV Technology will be transferred to Blue Label Mobile and consequently shareholders equity is adjusted accordingly (refer to note 5 of Blue Label Group *pro forma* statement of financial position)	158 638
The put option in respect of the 40% shareholding in AV Technology will be transferred to Blue Label Mobile and consequently shareholders equity is adjusted accordingly (refer to note 7 of Blue Label Group *pro forma* statement of financial position)	(68 156)
Adjustment to the loss on the sale of VAS Operations due to recognising the deferred consideration	100 000
***Pro forma* total ordinary shareholders' equity as at 31 May 2019 after the VAS Operations Transaction, assuming the solvency and liquidity of Cell C is proven**	2 449 172
Net asset value per share (cents)	270.87
Tangible net asset value per share (cents)	71.12

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON THE PRO FORMA FINANCIAL INFORMATION FOR BLUE LABEL

To the Directors of Blue Label Telecoms Limited

Report on the Assurance Engagement on the Compilation of Pro Forma Financial Information included in a Circular

We have completed our assurance engagement to report on the compilation of the pro forma financial information of Blue Label Telecoms Limited and its subsidiaries (the "Group") by the directors of the Group. The pro forma financial information, as set out in paragraph 26 and Annexure 5 of the circular (the "Circular") to shareholders regarding the proposed sale of the Blue Label Mobile Group (Pty) Ltd and its subsidiaries (collectively "VAS Operations") and 3G Mobile (Pty) Ltd and its subsidiaries excluding Comm Equipment Company (Pty) Ltd ("3G Distribution"),(the "Proposed Transaction"). The pro forma financial information consists of the pro forma statement of financial position as at 31 May 2019, the pro forma statement of comprehensive income for the year ended 31 May 2019 and related notes. The applicable criteria on the basis of which the directors have compiled the pro forma financial information are specified in the JSE Limited ("JSE") Listings Requirements and described in paragraph 26 and Annexure 5 of the Circular

The pro forma financial information has been compiled by the directors to illustrate the impact of the Proposed Transactions. As part of this process, information about the Group's financial position and financial performance has been extracted by the directors from the Group's financial statements for the year ended 31 May 2019, on which an audit report has been published.

Directors' responsibility

The directors of the Group are responsible for compiling the pro forma financial information on the basis of the applicable criteria specified in the JSE Listings Requirements and described in paragraph 26 and Annexure 5 of the Circular.

Our independence and quality control

We have complied with the independence and other ethical requirements of Sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)* and parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes), which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* respectively.

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountant's responsibility

Our responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the directors on the basis of the applicable criteria specified in the JSE Listings Requirements and described in paragraph 26 and Annexure 5 of the Circular based on our procedures performed.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the pro forma financial information has been compiled, in all material respects, on the basis specified in the JSE Listings Requirements.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the company as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgment, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

Our engagement also involves evaluating the overall presentation of the pro forma financial information.

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

Opinion

In our opinion, the pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria specified by the JSE Listings Requirements and described in paragraph 26 and Annexure 5 of the Circular.

Other matter

The pro forma financial information is based on the audited consolidated financial statements of the Group for the year-ended 31 May 2019. In our audit report on these consolidated financial statements, dated 26 September 2019, we expressed a qualified opinion and it also included a paragraph with respect to a material uncertainty relating to going concern.

PricewaterhouseCoopers Inc.
Director: D.Storm
Registered Auditor
Johannesburg

30 October 2019

BLUE LABEL TELECOMS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU ISIN: ZAE000109088
("**Blue Label**" or "**the Company**")

NOTICE OF GENERAL MEETING

All terms defined in the Circular to which this Notice of General Meeting is attached, shall bear the same meanings where used in this Notice of General Meeting.

NOTICE IS HEREBY GIVEN that a general meeting of Shareholders will be held in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton, on Wednesday, 4 December 2019 at 10:00 (South African Standard Time), to consider and, if deemed fit, pass, with or without modification, the resolutions set out hereunder.

Notes:

- For Ordinary Resolution Number 1 to be approved, it must be supported by more than 50% of the voting rights exercised on such resolution by Shareholders.
- For Ordinary Resolution Number 2 to be approved, it must be supported by more than 50% of the voting rights exercised on such resolution by Shareholders.
- For Ordinary Resolution Number 3 to be approved, it must be supported by more than 50% of the voting rights exercised on such resolution by Shareholders.

ORDINARY RESOLUTION NUMBER 1 – APPROVAL OF THE VAS OPERATIONS TRANSACTION

IT IS RESOLVED AS AN ORDINARY RESOLUTION that the VAS Operations Transaction, being the proposed disposal by Blue Label of its shares in and claims against Blue Label Mobile, pursuant to the VAS Operations Agreement, on terms and conditions more fully set out in the Circular, be and is hereby approved as a Category 1 transaction in terms of section 9 of the JSE Listings Requirements.

Reason and effect

The reason for Ordinary Resolution Number 1 is that, in terms of the JSE Listings Requirements, the VAS Operations Transaction constitutes a category 1 transaction for Blue Label, as in terms of the JSE Listings Requirements, the VAS Operations Transaction and the 3G Distribution Transaction are aggregated and the combined value of the Proposed Transactions constitutes more than 30% of Blue Label's market capitalisation and as such requires the approval of Shareholders by way of an ordinary resolution in accordance with section 9 of the JSE Listings Requirements.

The effect of Ordinary Resolution Number 1, if passed, will be to grant the necessary approval for the conclusion and implementation of the VAS Operations Transaction, in terms of the JSE Listings Requirements.

ORDINARY RESOLUTION NUMBER 2 – APPROVAL OF THE 3G DISTRIBUTION TRANSACTION

IT IS RESOLVED AS AN ORDINARY RESOLUTION that the 3G Distribution Transaction, being the proposed disposal by TPC of its interest in and claims against 3G Mobile, pursuant to the 3G Distribution Agreement, on terms and conditions more fully set out in the Circular, be and is hereby approved as a Category 1 transaction in terms of section 9 of the JSE Listings Requirements.

Reason and effect

The reason for Ordinary Resolution Number 2 is that, in terms of the JSE Listings Requirements, the 3G Distribution Transaction constitutes a category 1 transaction for Blue Label, which requires the approval of Shareholders by way of an ordinary resolution in accordance with section 9 of the JSE Listings Requirements.

The effect of Ordinary Resolution Number 2, if passed, will be to grant the necessary approval for the conclusion and implementation of the 3G Distribution Transaction, in terms of the JSE Listings Requirements.

ORDINARY RESOLUTION NUMBER 3 – DIRECTORS' AUTHORITY

IT IS RESOLVED AS AN ORDINARY RESOLUTION that any Director of Blue Label, be and is hereby authorised and empowered to do all such things, sign all such documents and take all such actions as may be necessary for or incidental to give effect to the ordinary resolutions set out above in this Notice of General Meeting and anything already done in this respect be and is hereby ratified.

Reason and effect

The reason for and effect of Ordinary Resolution Number 3 is to authorise each Director of Blue Label to do all such things and sign all such documents as are deemed necessary or desirable to implement the ordinary resolutions set out above in the Notice of General Meeting.

VOTING AND PROXIES

The date on which Shareholders must have been recorded as such in the Register for purposes of being entitled to receive this notice is Friday, 1 November 2019.

The date on which Shareholders must be recorded in the Register for purposes of being entitled to attend and vote at the General Meeting is Friday, 29 November 2019, with the last day to trade being Tuesday, 26 November 2019.

Meeting participants will be required to provide proof of identification to the reasonable satisfaction of the chairperson of the General Meeting and must accordingly bring a copy of their identity document, passport or drivers' license to the General Meeting. If in doubt as to whether any document will be regarded as satisfactory proof of identification, meeting participants should contact the Transfer Secretaries for guidance.

Shareholders entitled to attend and vote at the General Meeting may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a Shareholder of Blue Label. A Form of Proxy (*blue*), which sets out the relevant instructions for its completion, is enclosed for use by Certificated Shareholders or Own-name Dematerialised Shareholders who wish to be represented at the General Meeting. Completion of a Form of Proxy (*blue*) will not preclude such Shareholder from attending and voting (in preference to that Shareholder's proxy) at the General Meeting.

The instrument appointing a proxy and the authority (if any) under which it is signed must reach the Transfer Secretaries, at the addresses given below, to be received by them preferably by no later than 10:00 (South African Standard Time) on Tuesday, 3 December 2019, provided that any Form of Proxy not delivered to the Transfer Secretaries by this time may be handed to the chairman of the General Meeting prior to the commencement of the General Meeting, at any time before the appointed proxy exercises any Shareholder rights at the General Meeting.

Dematerialised Shareholders, other than Own-name Dematerialised Shareholders, who wish to attend the General Meeting in person, will need to request their CSDP or Broker to provide them with the necessary letter of representation in terms of the custody agreement entered into between such Shareholders and the CSDP or Broker.

Dematerialised Shareholders, other than Own-name Dematerialised Shareholders, who are unable to attend the General Meeting and who wish to be represented thereat, must provide their CSDP or Broker with their voting instructions in terms of the custody agreement entered into between themselves and the CSDP or Broker in the manner and time stipulated therein.

Shareholders present in person, by proxy or by authorised representative shall, on a show of hands, have one vote each and, on a poll, will have one vote in respect of each Share held.

By order of the Board

J van Eden
Company Secretary
6 November 2019

Transfer Secretaries

Hand deliveries to:
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

Postal deliveries to:
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown, 2107
Email address: proxy@computershare.co.za

BLUE LABEL TELECOMS LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2006/022679/06)
Share code: BLU ISIN: ZAE000109088
("**Blue Label**" or "**the Company**")

FORM OF PROXY

FOR USE BY CERTIFICATED AND OWN-NAME DEMATERIALISED SHAREHOLDERS ONLY

All terms defined in the Circular, to which this Form of Proxy is attached, shall bear the same meanings when used in this Form of Proxy.

For use only by Shareholders holding Certificated Shares and Own-name Dematerialised Shareholders at the General Meeting to be held in the boardroom, Blue Label corporate offices, 75 Grayston Drive, Sandton on Wednesday, 4 December 2019 at 10:00 (South African Standard Time).

Dematerialised Shareholders who are not Own-name Dematerialised Shareholders must not complete this Form of Proxy and must provide their CSDP or Broker with their voting instructions, in terms of the custody agreement entered into between them and their CSDP or Broker. Dematerialised Shareholders who are not Own-name Dematerialised Shareholders wishing to attend the General Meeting must inform their CSDP or Broker of such intention and request their CSDP or Broker to issue them with the necessary letter of representation to attend.

I/We (Full name in print) ______________________________

of (address) ______________________________

Telephone: (work) area code (   ) ______________ Telephone: (home) area code (   ) ______________

Cell phone number: ______________ E-mail address: ______________

being the holder of ______________ Shares in Blue Label, hereby appoint:

1. ______________ or failing him/her

2. ______________ or failing him/her

3. the chairperson of the General Meeting,

as my/our proxy to attend, speak and vote for me/us at the General Meeting for purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof and to vote for and/or against the resolutions and/or abstain from voting in respect of the Shares registered in my/our name(s), in accordance with the following instructions (see notes):

	In favour of *	Against *	Abstain *
Ordinary Resolution Number 1 Approval of the VAS Operations Transaction			
Ordinary Resolution Number 2 Approval of the 3G Distribution Transaction			
Ordinary Resolution Number 3 Directors' authority			

** One vote per Share held by Shareholders. Shareholders must insert the relevant number of votes they wish to vote in the appropriate box provided or "X" should they wish to vote all Shares held by them. If the Form of Proxy is returned without an indication as to how the proxy should vote on any particular matter, the proxy will exercise his/her discretion as to whether, and if so, how he/she votes.*

Signed at ______________ on this ______ day of ______________ 2019

Signature(s) ______________________________

Capacity of signatory (where applicable) ______________________________

Assisted by (where applicable) (state capacity and full name) ______________________________

Each Shareholder is entitled to appoint one or more proxy(ies) (who need not be Shareholder(s) of Blue Label) to attend, speak and vote in his/her stead at the General Meeting.

NOTES TO THE FORM OF PROXY

A Shareholder entitled to attend and vote at the General Meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a registered Shareholder of Blue Label.

Every Shareholder present in person or by proxy and entitled to vote at the General Meeting shall, on a show of hands, have one vote only, irrespective of the number of Shares such Shareholder holds. In the event of a poll, every Shareholder shall be entitled to that proportion of the total votes in Blue Label which the aggregate amount of the nominal value of the Shares held by such Shareholder bears to the aggregate amount of the nominal value of all the Shares issued by Blue Label.

Shareholders who have Dematerialised their Shares with a CSDP or Broker, other than Own-name Dematerialised Shareholders, must arrange with the CSDP or Broker concerned to provide them with the necessary authorisation to attend the General Meeting or the Shareholders concerned must instruct their CSDP or Broker as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the Shareholder and the CSDP or Broker concerned.

Instructions on signing and lodging the Form of Proxy:

A Shareholder may insert the name of a proxy or the names of two alternative proxies of the Shareholder's choice in the space/s provided, with or without deleting "the chairperson of the General Meeting", but any such deletion must be initialled by the Shareholder. Should this space/s be left blank, the proxy will be exercised by the chairperson of the General Meeting. The person whose name appears first on the Form of Proxy and who is present at the General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.

A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries or Blue Label.

The completed Form of Proxy must be lodged with, posted to or sent via e-mail to the Transfer Secretaries at the addresses set out below, to be received by them preferably by no later than 10:00 (South African Standard Time) on Tuesday, 3 December 2019, provided that any Form of Proxy not delivered to the Transfer Secretaries by this time may be handed to the chairman of the General Meeting prior to the commencement of the General Meeting, at any time before the appointed proxy exercises any Shareholder rights at the General Meeting.

Transfer Secretaries

Hand deliveries to:
Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196

Postal deliveries to:
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown, 2107
Email address: proxy@computershare.co.za

Documentary evidence establishing the authority of a person signing this Form of Proxy in a representative capacity must be attached to this Form of Proxy unless previously recorded by the Transfer Secretaries or waived by the chairperson of the General Meeting.

The completion and lodging of this Form of Proxy will not preclude the relevant Shareholder from attending the General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Shareholder wish to do so.

The appointment of a proxy in terms of this Form of Proxy is revocable in terms of the provisions of section 58(4)(c) read with section 58(5) of the Companies Act, and accordingly a Shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to Blue Label.

The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this Form of Proxy must be initialled by the signatory/ies.

The chairperson of the General Meeting may accept any Form of Proxy which is completed other than in accordance with these instructions provided that he/she is satisfied as to the manner in which a Shareholder wishes to vote.