DIRECTOR'S REPORT

The directors have pleasure in submitting their report on the annual financial statements of African Equity Empowerment Investments Limited and the Group for the year ended 31 August 2020.

1. NATURE OF BUSINESS

African Equity Empowerment Investments Limited ("AEEI" or "the Group") is a majority black-owned and black managed investment holding company based in South Africa. The Group has investments in fishing and brands, technology, events and tourism, health and beauty, biotherapeutics as well as strategic investments, all supporting Broad- based Black Economic Empowerment (B-BBEE) and small, medium and micro enterprises (SMMEs). The Group also holds strategic investments some with international partners.

It has many operational joint arrangements, associates and subsidiaries. Refer to notes 44, 45 and 46.

2. REVIEW OF FINANCIAL RESULTS AND ACTIVITIES

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA financial reporting guides issued by the Accounting Practices Committee and the JSE Listings Requirements. The accounting policies have been applied consistently compared to the prior period, except for IFRS 16 ("Leases"). Which became effective in the current year.

Full details of the financial position, results of operations and cash flows of the Group are set out in these consolidated annual financial statements. Refer to note 43 - Segmental Information for a detailed breakdown of the proportion of net income or loss attributable to the various divisions of the Group.

3. CORPORATE GOVERNANCE

The directors subscribe to the principles incorporated in the King IV™ Report on Corporate Governance™ for South Africa 2016 (King IV™) and, save as disclosed in the corporate governance report, have complied as far as practical with principles contained therein throughout the reporting period. The directors recognise the need to manage the Company with integrity and in accordance with generally accepted corporate practices. The Board and its committees have reviewed the Group and Company's corporate governance policies and procedures in the current year and no issues were identified.

4. EVENTS AFTER THE REPORTING PERIOD

On 6 September 2020, AYO Technology Solutions Ltd ("AYO") withdrew its funds from the Cadiz Life Investment Enterprise Development Fund ("Cadiz"). The funds will be utilised by AYO as part of its entrepreneurship development expenditure into small- to medium-sized enterprises in the information, communication, and technology sector for B-BBEE compliance.

AYO withdrew R540 million from the Bank of China on 10 September 2020 and invested the funds with Numus Capital (Pty) Ltd ("Numus Capital"). Numus Capital is a niche stock broking and asset management firm. The funds with Numus Capital will be utilised to invest in the money market and on listed shares on the Johannesburg Stock Exchange. At the time of issue of the financial results, AYO had invested funds of R595 million with Numus Capital.

AYO withdrew R200m from the Bank of China on 8 October 2020, and R100m on 28 October 2020. The withdrawn funds were invested with Ninety One Fund Managers SA (RF) (Pty) Ltd ("Ninety One"). The funds with Ninety One will be utilised to invest in the money market. At the time of issue of the financial results, AYO had invested funds of R520m with Ninety One.

On 17 August 2020, AYO concluded a binding offer to acquire 100% of the issued share capital and outstanding shareholder claims in Kathea Communication Solutions (Pty) Ltd ("Kathea Communication") for an upfront consideration of R59.8m and an earn-out of R30m. Kathea Communication is a value-added distributor of voice, audio visual, video conferencing and workspace management products solutions and services and represents some of the top brands in the communication, collaboration, audio visual and workspace technology arenas.

The earn-out amount is to be paid in one instalment provided that Kathea Communications achieves minimum warranted earnings before interest, tax, depreciation and amortisation ("Warranted EBITDA") of R22m in the 2021 financial year. If Kathea Communications does not achieve the Warranted EBITDA, AYO will be entitled to claw back some or all the shortfall in the earn-out amount. As at reporting date it is estimated that AYO will pay a maximum of R30m for the earn-out.

The binding offer is subject to certain conditions precedent, the main ones being the successful completion of due diligence to the satisfaction of AYO, Competition Commission approval and the conclusion of a definitive sale of share agreement. At the time of issue of the financial results, AYO was still performing a due diligence process on Kathea Communication and the transaction had not yet been approved by the Competition Commission.

At the time of issue of the consolidated annual financial statements, AYO did not have sufficient information to provide the disclosures as required by IFRS 3 Business Combinations as the initial accounting for the transaction was incomplete due to conditional proceedings of the offer being finalised.

On 17 August 2020, the Group concluded a binding offer to acquire 60% of the issued share capital and outstanding shareholder claims in Disruptive Vision (Pty) Ltd (trading as Kathea Energy) ("Kathea Energy") for an upfront consideration of R25.2 million and an earn-out of R10.8 million. Kathea Energy is a value-added distributor of alternative energy solutions and represents some of the top brands in the alternative energy sector.

The earn-out amount is to be paid equally over a three-year period provided that Kathea Energy achieves a minimum warranted earnings before interest, tax, depreciation and amortisation ("Warranted EBITDA") of R13.5 million in the 2021 financial year, R14.8 million in the 2022 financial year and R16.3 million in the 2023 financial year. If Kathea Energy does not achieve the Warranted. EBITDA, AYO will be entitled to claw back some or all the shortfall in the earn-out amount in each respective financial year. As at reporting date it is estimated that AYO will pay a maximum of R10.8 million for the earn-out.

The binding offer is subject to certain conditions precedent, the main ones being the successful completion of due diligence to the satisfaction of AYO, competition commission approval and the conclusion of a definitive sale of share agreement. At the time of issue of the consolidated annual financial statements, AYO was still performing a due diligence process on Kathea Energy and the transaction had not yet been approved by the competition commission

Saab Grintek Defence (Pty) Ltd ("SGD") exercised its call option on the 25% plus 1 share ("Subject Shares") the Group held in SGD in line with agreements signed in 2015 when the Group acquired the investment in SGD. The Subject Shares were held, prior to their disposal, by Bowwood and Main no. 180 (Pty) Ltd ("Bowwood"), a 60% subsidiary of AEEI.

The disposal of the Subject Shares is a category 1 transaction in terms of the JSE Listings Requirements, requiring the issuance of a circular ("Circular") to AEEI shareholders calling for a general meeting of shareholders to obtain approval for such disposal

Due to the legally binding agreements entered into in 2015 not making provision for shareholder approval by AEEI, Bowwood had no option but to dispose of the Subject Shares as per the aforementioned agreements, notwithstanding that AEEI itself needs to obtain shareholder approval. A failure or refusal by Bowwood to do so would have exposed Bowwood to a substantial damages claim for breach of contract. The disposal of the Subject Shares has thus taken place and was concluded on 3 December 2020.

AEEI however, in terms of good corporate governance, will comply as far as possible, with the JSE Listings Requirements despite Bowwood disposing of the Subject shares prior to AEEI obtaining approval from its shareholders and in this regard is preparing the Circular.

Shareholders are advised that Premier Fishing SA (Pty) Ltd (“PFSA”) and Laudeware (Pty) Ltd (“BEE SPV”) (“The parties”) have entered into a binding memorandum of understanding (“MOU”) in terms of which *inter alia*, BEE SPV, a special purpose broad-based black economic empowerment company shall be introduced as a shareholder in PFSA, such that the black ownership of PFSA shall be increased from 69% to 78% post the introduction of BEE SPV (“BEE Transaction”). PFSA shall create and issue to BEE SPV a new class of share (“PFSA A Class Shares”) with voting rights which rank *pari passu* with the ordinary shareholders of PFSA such that the PFSA A Class Shares issued to BEE SPV will, after their issue, constitute 30% of the total issued share capital of PFSA.

The BEE Transaction is being undertaken for purposes of:

- complying with section 2 (Objectives) of the MLRA and, in particular, section 2(j) thereof responding to the need to restructure the fishing industry to address historical imbalances and to achieve equity within all branches of the fishing industry; and
- increasing the black ownership of PFSA to 78% in order to secure Fishing Rights for Premier Fishing , in relation to the upcoming fishing rights allocation process (“FRAP”).

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report that would require any adjustments to the consolidated annual financial statements.

5. AUTHORISED AND ISSUED SHARE CAPITAL

Refer to note 17 of the consolidated annual financial statements for detail of the movement in authorised and issued share capital.

6. DIVIDENDS

The company’s dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the Board may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the board of directors may pass on the payment of dividends.

A final dividend of 20 cents per share was approved by the Board on 23 November 2020 in respect of the year ended 31 August 2020. The dividend payment date is 21 December 2020 to shareholders recorded in the register of the company at close of business on 18 December 2020. The total dividend for the year is 30 cents.

7. DIRECTORATE

The directors in office during the period up to the date of the report are as follows:

Directors	Office	Designation	Changes
K Abdulla	Chief executive officer	Executive	Resigned, 12 March 2020
V Dzvova	Chief executive officer	Executive	Appointed, 12 March 2020
C Ah Sing	Chief financial officer	Executive	Resigned, 31 July 2020
I Amod	Other	Non-executive	Appointed, 21 January 2019
AB Amod	Other	Non-executive	Appointed, 12 November 2012
Adv Dr NA Ramathlodi	Other	Non-executive Independent	Resigned, 16 April 2020
G Colbie	Other	Non-executive	Appointed, 30 August 2019
B Qama	Other	Non-executive Independent	Appointed, 2 July 2020
WJ Raubenheimer	Other	Non-executive Independent	Appointed, 9 July 2020
MG Mosia	Other	Non-executive Independent	Resigned, 16 April 2020
JS Van Wyk	Other	Executive	Appointed, 23 September 2019

8. AUDITORS

Crowe JHB and Thawt Inc were appointed as joint auditors for the Company and its subsidiaries for 2020.

At the AGM, shareholders will be requested to appoint Crowe JHB and Thawt Inc. as the independent external auditors of the Group and to confirm Gary Kartsounis as the designated lead audit partner for the 2021 financial year.

9. SECRETARY

The company secretary Mr D Terblanche remained in office.

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10. LIQUIDITY AND SOLVENCY

The directors have performed the liquidity and solvency tests required by the Companies Act, as amended, for the Group. The Board is satisfied that the Group is solvent and has no reason to believe that the business will not be a going concern in the year ahead.

11. COMPANY SECRETARY

Damien Terblanche is the company secretary and is accountable to the Board.

During the year, the company secretary:

- Provided guidance to the directors in terms of their duties, responsibilities and powers as well as their responsibilities and liabilities under the Companies Act;
- The Board was made aware of changes to any relevant law affecting the Company;
- Prepared Board packs and recorded detailed minutes of meetings;
- Ensured that Board and committee meetings and the AGM of the Company were conducted in a proper and orderly manner;
- Disclosed the corporate actions, SENS announcements and directors' dealings in securities, and ensured compliance with the JSE Listings Requirements and the Companies Act.

11. **COMPANY SECRETARY** (continued)

The Board has considered the competence, qualifications and experience of the company secretary and is satisfied that they are appropriate. All directors have unlimited access to the services of the company secretary. The company secretary's appointment and removal is a matter for the whole Board.

The Board is satisfied that an arm's length relationship exists between the company secretary and the Company, as he is not a member of the Board, is not involved in the day-to-day operations of the Company and is not a prescribed officer.

12. **REPORT OF THE AUDIT AND RISK COMMITTEE**

The report of the audit and risk committee, as required in section 94(7)(f) of the Companies Act, is set out on page 2 and 3 of these financial statements.

13. **BOARD EVALUATION OF THE AUDIT AND RISK COMMITTEE**

The Board confirms that the audit and risk committee has fulfilled its statutory duties in terms of section 94(7) of the Companies Act and King IV™ compliance. As at the reporting date, the committee is compliant.

The committee confirms that it has complied with it's legal and regulatory responsibilities for the 2020 financial year.

14. **DIRECTORS' INTERESTS IN SHARES**

As at 31 August 2020, the directors of the Company held in aggregate, directly or indirectly, beneficially or non-beneficially, 822 250 (2019:14 969 706) shares in the Company, equivalent to 0.17% (2019: 2.76%) of the issued share capital. The individual interests of directors are as follows:

INTEREST IN SHARE CAPITAL 'B' CLASS ORDINARY SHARES LISTED

31 August 2020	Direct	Indirect beneficial	Indirect non-beneficial	Total shares	Total percentage
WJ Raubenheimer	50 000	–	562 250	612 250	0.13
I Amod	205 000	–	–	205 000	0.04
A Amod	5 000	–	–	5 000	0.00
Subtotal	260 000	–	562 250	822 250	0.17

31 August 2019	Direct	Indirect beneficial	Indirect non-beneficial	Total shares	Total percentage
K Abdulla*	1 575 316	5 300 000	7 534 390	14 409 706	2.65
C Ah Sing*	350 000	–	–	350 000	0.07
I Amod	205 000	–	–	205 000	0.04
A Amod	5 000	–	–	5 000	0.00
Subtotal	2 135 316	5 300 000	7 534 390	14 969 706	2.76

* *Executive Directors*

There have been no changes in beneficial interests that occurred between the end of the reporting period and the date of this report.

15. VOTING RIGHTS

"B" ordinary shares each carry one vote per share and "A" ordinary shares each carry five hundred votes per share. No "A" ordinary shares have been issued.

16. PROPERTY, PLANT AND EQUIPMENT

There was no change in the nature of the property, plant and equipment of the Group or in the policy regarding their use.

17. ACQUISITIONS DURING THE YEAR

On 17 October 2019, AYO Group completed the acquisition of a 100% shareholding of NSX Solutions Consulting (Pty) Ltd ("NSX") for a consideration of R500 000. A loan of R850 000 was extended to NSX. NSX is a company which provides cloud computing solutions.

On 21 February 2020, AYO acquired an additional 25% of shares in Kalula Communications (Pty) Ltd ("Kalula") for a consideration of R12m. AYO previously had a 51% shareholding in Kalula and now has 76% shareholding. Kalula is a company which sells headsets and video conferencing equipment.

On 1 May 2020, AYO subscribed for 20% of the issued share capital in Last Mile Logistics Africa (Pty) Ltd.

On 5 October 2019, AYO subscribed for 5% of the issued share capital in 4Plus Technology Venture Fund Africa (Pty) Ltd ("4 Plus") and on 16 December 2019, AYO subscribed for a further 7% of the issued share capital in 4 Plus. AYO previously held 10% in 4 Plus and as at 31 August 2020, has a total of 22% shareholding in 4 Plus. 4 Plus has interests in digital media, artificial intelligence, software development and telecommunications.

On 14 April 2020, AYO subscribed for 150 cumulative, redeemable, non-participating convertible preference shares of no-par value in Loot B2B (Pty) Ltd (previously known as K2018010234 (South Africa) (Pty) Ltd) for a consideration of R15m.

The On 9 April 2020, AYO subscribed for 1 500 cumulative, redeemable, non-participating convertible preference shares of no par value in 4Plus for consideration of R15m and on 4 May 2020, AYO subscribed for a further 1 500 cumulative, redeemable, non-participating convertible preference shares of no par value in 4Plus for consideration of R15m. At 31 August 2020, AYO holds 3 000 cumulative, redeemable, non-participating convertible preference shares of no par value in 4Plus.

18. INTERESTS IN SUBSIDIARIES, ASSOCIATES AND JOINT ARRANGEMENTS

The joint ventures, associates and subsidiaries are reflected in notes 44, 45 and 46.

19. BORROWING LIMITATIONS

In terms of the Memorandum of Incorporation of the Company, the directors may exercise all the powers of the Company to borrow money, as they consider appropriate. The unutilised borrowings as at 31 August 2020 amounted to R55 041 176 (2019: R123 140 549).

20. SPECIAL RESOLUTIONS

The statutory information relating to special resolutions passed by subsidiaries is available from the registered office of the Company. The only special resolutions passed at the annual general meeting on 16 April 2020 were as follows:

- remuneration for executive and non-executive directors;
- inter-company financial assistance;
- financial assistance for the acquisition of shares in the Company or a related or inter-related company; and
- the Company or its subsidiaries to repurchase Company shares.

21. GOING CONCERN

The directors believe that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the Group is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the Group. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the Group.

22. LITIGATION STATEMENT

The Group becomes involved in litigation from time to time through various claims and lawsuits incidental during the ordinary course of business.

On 31 May 2019 AYO received a summons issued by the Public Investment Corporation (“PIC”) and Government Employees Pension Fund (“GEPF”).The summons seeks a declaration that the subscription agreement entered into by the PIC with AYO be declared unlawful and set aside and that AYO be ordered to pay the PIC R4.3bn together with interest of 10.25% per annum accrued from 22 December 2017 to date of final payment. AYO has instructed its attorneys to oppose the action.

In the event that the PIC and GEPF are successful in their court application, management believes that they will be able to reconfigure the Company into a pure investment holding Company. AYO has several subsidiaries that have been in existence for more than 20 years, delivering both satisfactory trading performance and dividend income for AYO.

The State Information Technology Agency (“SITA”) brought an application in the Eastern Cape high court for an order to interdict the Eastern Cape Department of Education (“ECDOE”) from continuing with a contract that the ECDOE has with Sizwe Africa IT Group (Pty) Ltd ("Sizwe") for the supply and lease of tablets to matric learners in the Eastern Cape. The Eastern Cape high court granted the order for the interdict. The ECDOE, supported by Sizwe are appealing the ruling.

23. DATE OF AUTHORISATION FOR ISSUE OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements have been authorised for issue by the directors on 24 December 2020. No authority was given to anyone to amend the consolidated annual financial statements after the date of issue.

24. PREPARER AND SUPERVISOR

These consolidated annual financial statements were prepared by the Group Financial Controller, Rufaro Chanakira CA(SA) and Group Financial Manager, Michelle Hunlun CA(SA) under the supervision of Group Chief Financial Officer, Jowayne Van Wyk CA(SA).