

Directors' report

We are an African financial services group, diversified by our operational footprint and the spread of industries in which we invest. The Group's focus is on quality investments in niche industries with innovative value propositions that have high barriers to entry.

Operationally, the Ecsponent Group creates wealth by investing in companies that offer a range of niche financial services in South Africa and Africa, offering targeted investment services, credit solutions and enterprise development initiatives that improve financial inclusion for SMEs. We balance the short-term cash generative operational activities through our Equity Holdings business unit, which invests in listed and private equity with a longer-term investment horizon.

Review of operations



Refer to the Group's 2018 Integrated Report for further information regarding the Group's performance, strategy and outlook.



This report and other supporting documents can be found on the Group's corporate website at www.ecsponentlimited.com/2018-financial-results/

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The Board of directors ("the Board") is pleased to present the consolidated results for the fifteen-month period ended 30 June 2018.

The Group's continued growth has translated into an increase of 550% in the Company's share price to 65 cents per share at market close on Friday, 29 June 2018, compared to 10 cents per share at the end of the comparative reporting period, being 31 March 2017.

Operating profit increased by 89% from R218.2 million to R412.4 million. The Group has further continued to return significant asset growth with total assets increasing by 84% from R1 214.8 million at 31 March 2017 to R2 235.8 million at 30 June 2018.

R811.9 million, or 36.3% of the Group's total assets of R2 235.8 million are held outside of the Common Monetary Area. These foreign denominated assets provide a hedge against a weakening rand but also exposes the Group's results to short-term currency volatility.

In addition, at 30 June 2018 the Group held investments valued at R280.7 million, or 12.6% of total assets, in listed shares. The valuation of these investments is subject to short-term price volatility but provide the Group with a rand hedge and significant longer-term growth prospects. The Group entered into an option agreement

during the reporting period to hedge against the price volatility experienced within its listed share portfolio.

Management continues to consider additional hedging instruments to further mitigate against inherent short-term earnings volatility arising from market risks associated with investments in listed foreign equities.

Capital Raising

The Group's preference share programme, which raises capital to fund investments, has continued to facilitate the Group's expansion strategy. The programme provides retail and institutional investors with returns over a five-year period, after which their capital is returned.

In addition to raising capital through the programme, the Group has as a strategic objective of lowering its cost of capital through securing further institutional debt funding.

The Company procured debt funding during the period under review of USD16 million (R206 million) on market related terms. The Group deployed the funding to expand its operations and international asset base. Loans and investments funded remain US dollar or euro based to avoid exposure to emerging market exchange rate risk, thereby providing additional foreign currency assets.

Operational review

Group overview

Below is an overview of the Group's operations for the 2018 financial period.



Credit

The Group's Credit operations provide secured credit to its commercial client base. The secured credit solutions address the demand for funding and other challenges that SMEs face, while supporting large corporate businesses to meet their preferential procurement targets. Through a combination of secured finance, logistics and procurement support, skills development and training, these credit solutions support different business sectors, including:

- Emerging businesses and individuals
- Small & Medium Enterprises (SMEs)
- Large corporate businesses
- Green project developers

Broadly, these products include:

- SME credit, a model that provides wholesale funding to its target market. The nature of these facilities is typically medium-term, with a short-term call-up clause to ensure liquidity;
- Enterprise development, which supports large corporate businesses in meeting their preferential procurement targets through Supplier and Enterprise Development of emerging, qualifying vendors; and
- Specialist procurement and logistics; which provides procurement support, credit terms, skills development and training to emerging businesses.

These credit models offer unique products, that are fully secured so that the Group never takes an unsecured position, thereby minimising risk.

The Group controls all credit operations centrally, which significantly improves both governance and consistency across the operations. In addition, the centralised procurement and logistics operations provide the critical mass required to support enterprise development in each of the territories.

At the same time, it contributes to securing the Group's interests in transactions related to the supply chain and enterprise development activities.

The demand for credit from the SME sector remains buoyant and has resulted in continued, sustained growth of the business across the Group's footprint. Total loans and advances increased by 65.4% from R748.7 million at 31 March 2017 to R1 238.4 million at 30 June 2018. Credit segment's operating profit increased to R363 354 for the 15 months.



See page 24 and 25 of the 2018 Integrated Report for a detailed description of the Group's credit products and the value they add.



Investment Services

The Group's ability to deliver effective investment and other financial services products to the retail market is one of its core competencies. To leverage opportunities offered through the established distribution channel, the Investment Services business unit introduced additional preference share products to the South African market. These products will give the Investment Services unit the ability to meet multiple investment needs of the investor base and lead to additional profit opportunities for the Group. Additionally, it introduced a range of traditional investment products to the market, specifically focusing on compulsory retirement funds.

The Investment Services business unit furthermore enhanced its product offering in Swaziland by obtaining a license to act as a Collective Investment Scheme (CIS) Manager in Swaziland.



See pages 26 and 27 of the 2018 Integrated Report for a detailed description of the Group's Investment Services products and the value they add.

“The Group holds investments in innovative and fast growing market sectors.”



Equity Holdings

Fundamental to Ecsponent's success is the ability to conclude mergers and acquisitions that provide sustainable medium- to long-term capital growth. The Equity Holdings business unit invests strategically in companies that are well-managed, profit focused and provide a balance in the Group's short- and long-term asset base.

It targets businesses with significant intellectual property, which provide a barrier to entry for competitors, command significant margins and apply a robust business model. The Group holds investments in innovative and fast-growing market sectors, including fintech, renewable energy, healthcare, and digital media and marketing.

At 30 June 2018, the Group held 12.1% in the Frankfurt listed (Luxembourg based) Fintech company MyBucks SA Limited ("MyBucks"). This investment has the added advantage of providing a foreign currency hedge against local currency frailty.

Total Other Financial Assets increased by 257.32% from R232.9 million to R832.2 million compared to the comparative period. Operating profits increased to R139.0 million for the 15 months ended 30 June 2018.

The Group announced transactions during June 2018 that, amongst other investments, will result in the increase in its investment of 12.1% to more than 25% of MyBucks during the first half of the June 2019 financial year. The investment will give the Group enhanced exposure to financial services

and related technology, across multiple geographies and currencies which provide quantifiable value to its operations.

Geographical footprint

The Group's operations in South Africa are mirrored across the operational footprint in Swaziland and Botswana, with in-country client representation in each territory. In Zambia, the Group holds a 25% stake in the local entity, which is registered as a deposit-taking financial institution under the GetBucks brand.

The back-office infrastructure of each territory is centrally managed from South Africa.

Prospects

Key elements of the Group's on-going growth strategy are:

- the continued focus on core businesses;
- the continued investment in the Group's credit operations;
- reduction in concentration risk;
- increased emphasis on high yield equity opportunities and sector diversification;
- increased focus on technology to facilitate business;
- obtaining rand-based and foreign currency institutional funding; and
- aggressive cost rationalisation/reduction.

The abovementioned approach is aimed at the continued development of a robust and complementary financial services group which continues to provide sustainable returns.

Acquisitions and disposals

The Board actively considers investment opportunities that could contribute to the development of a robust and complementary financial services group, which continues to provide sustainable returns. Similarly, the Group remains committed to its focused investment strategies and following a series of transactions (announced during 2017) to further refine the Group's business focus, the Group has disposed of several non-core assets and achieved significant asset growth.

The focused operational structure is likely to be more beneficial to the Group's profitability. By reducing the span of operations, increased attention will be applied to core business operations. As a result, cash will be deployed into core assets, overhead costs and general infrastructure requirements will be reduced, thereby improving performance ratios.

The Group concluded the following transactions initiated during the previous financial period under the alignment restructure. This relates to:

1. The Group's disposal of its 50% interest in Sure Choice, a company incorporated and operating in Botswana, for P10 million; and
2. The agreement to dilute its interest in Ecsponent Financial Services Zambia (EFS Zambia) from 100% to 25%, through an issue of shares by EFS Zambia to GetBucks MU.

The relevant regulatory approvals for the disposal of Sure Choice and the dilution of shareholding in Ecsponent Services Zambia (EFS Zambia) were not yet effective on 31 March 2017. The remaining requirements were finalized during the 30 June 2018 financial period and the disposal transactions concluded.

The following acquisitions/investments and disposals were concluded during the financial period:

Transaction details	Value
3 January 2018 Investment of up to R100 million in cumulative perpetual preference shares issued by VSS Financial Services (Pty) Ltd ("VSS") – a wholly-owned subsidiary of MyBucks SA. VSS offers information technology development services, focusing on fintech and the integration of artificial intelligence in financial operations.	R100 million
9 February 2018 Acquired an additional 444 000 shares in MyBucks S.A. via Ecsponent Botswana, a wholly owned subsidiary of the Group, at a subscription price of EUR9.00 per share. The additional investment resulted in the increase of the Ecsponent shareholding in the issued ordinary share capital of MyBucks to 12.1% at 30 June 2018 from the reported 10% holding at 31 March 2017.	R59.2 million
23 May 2018 19% stake in the fully-empowered venture capital company (VCC), Capitis Equity Proprietary Limited ("Capitis"). Capitis is a registered VCC in terms of Section 12J of the Income Tax Act.	R158 000
23 May 2018 An investment of up to R400 million in the Capitis Section 12J equity fund which will expand the Group's ability to stimulate the growth of South Africa's small and medium enterprises (SME) sector.*	R400 million

* R156 million of the R400 million investment was made by 30 June 2018. The balance to be invested before the end of the next financial period.

Transaction details	Value
19 June 2018 Ecsponent, via Capitis acquired 49% shareholding in Truth Digital Group (Pty) Ltd, a digital marketing group owned by entrepreneur and businessman Shaka Sisulu, who aims to create the largest, diverse and dynamic black-owned digital marketing group on the African continent.	R7.3 million
19 June 2018 Ecsponent disposed the going concern business of its wholly-owned subsidiary, Return on Innovation (Pty) Ltd to iKGB Media Information Service (Pty) Ltd - one of the subsidiaries held by Truth Digital Group.	R7.3 million
25 June 2018 Ecsponent acquired 16.7 million shares in Go Life International Limited, a company listed on the Stock Exchange of Mauritius, with a secondary listing on the JSE's AltX. Go Life is already established in the frail care, nutraceutical and cosmeceutical industry.	R10 million
25 June 2018 Go Life Healthcare, a wholly owned subsidiary of Go Life International, acquired Ecsponent's 50% shareholding in Cryo-Save South Africa (Pty) Ltd and Salveo Swiss Technologies Limited – both leading stem cell banks in South Africa.	R10 million

The following acquisitions/investments were announced during the financial period and are subject to shareholder and regulatory approval by the date of this report:

Transaction details	Value
23 May 2018 Increased investment in MyBucks SA from 12.1% to 23.6% through the acquisition of <ul style="list-style-type: none"> 352 612 MyBucks SA shares, constituting 2.72% of its total issued share capital at a value of BWP65 million by converting the outstanding debt of DTM Capital (Pty) Ltd. and, 1 145 998 MyBucks SA shares, constituting 8.839% of its total issued share capital at a value of R260 million by converting the outstanding debt of Coronado Trading 258 CC.# 	R350.1 million
29 June 2018 Up to 80% of Invest Solar Africa Limited ("ISA"), a renewable energy company focused on the development and financing of renewable energy projects in Africa. ISA will be listed on the Botswana Stock Exchange following an IPO.	R90.8 million
29 June 2018 51% of Energy Systems Group (Pty) Ltd, a company with a renewable energy infrastructure, and a supplier and implementation expert in Botswana.	R38 million
29 June 2018 40% of MHMK Capital (Pty) Ltd ("MHMK"), founded by George Manyere in 2013. MHMK is a privately held Africa-focused private equity investment and advisory firm that manages and provides advice on investments across multiple sectors in its chosen markets in Sub-Saharan Africa.	R51.9 million
29 June 2018 34.89% of GetBucks Zimbabwe, listed on the Zimbabwean Stock Exchange. The company offers financial products to individuals and small and medium sized, enterprises, and accepts deposits from customers.	R232.4 million
29 June 2018 An additional 16.227% of MyBucks SA, which together with the transactions on 9 February 2018 and 23 May 2018 listed above, will result in Ecsponent holding a total of 39.885% in MyBucks SA.	R503.3 million

Subject to shareholder approval, which was obtained on 5 September 2018.

Special resolutions

Shareholders voted and approved, with the prerequisite majority, several special resolutions during the financial period. Below we provide a high-level summary of the special resolutions adopted during the financial period, refer to the appendix to the financial statements for the detailed special resolutions.

2017 Annual General Meeting

During the annual general meeting held on 4 August 2017 shareholders approved:

- Non-executive directors' remuneration and fees for ad hoc services rendered;
- General authority for the Company to enter into funding agreements, provide loans or other financial assistance at the directors' discretion; and
- The repurchase of the Company's ordinary and /or preference shares should the opportunity arise.

Amendments to the Company's preference shares

During the financial period the Board proposes amendments to the Company's Preference Shares to ensure that the terms thereof remain competitive within the prevailing market conditions, and that the cost of funding attached thereto remained appropriate for the Company. The proposed changes included amongst others the following:

- Issue of additional classes of preference shares providing various returns; and
- Incorporation of an early redemption clause allowing the Company to early redeem should the opportunity arise.

Corporate actions

In addition to the transactions mentioned on pages 21 and 22, the following corporate actions were implemented during the period under review. Their objective was to expand the Group's preference share product range and thereby providing additional investment options with enhanced flexibility to clients in response to market demands.

Amendments to Classes D, E, F and G Preference Shares

The Board proposed amendments to the Company's Memorandum of Incorporation ("MOI") amending the terms of the Company's unissued preference shares comprising of Class D, Class E, Class F and Class G. Shareholders approved the proposed amendments on 14 August 2017 via written consent in terms of Section 60 of the Companies Act.

A prospectus was subsequently issued during September 2017 offering Class D, E and G

preference shares to the public. The Company listed 10 000 Class D, 10 000 Class E and 2 500 Class G preference shares on 4 October 2017. Due to the conversion rights to ordinary shares held by the preference shares as defined in the Company's MOI, the issue of Class D and E preference shares was limited to the directors' general authority to issue shares.

At the general meeting held on 27 October 2017 shareholders ratified the initial public offering noted above, approved further issues of class D and E preference shares under the Groups' preference share programme and provided a general authority to issue ordinary shares in terms of the preference share rights to convert.

Specific approval for the issue of convertible Class G Preference Shares was previously obtained from shareholders in a general meeting held on 3 May 2016.

Amendments to Classes A, B and C Preference Shares

The Board proposed further amendments to the Company's MOI amending the terms of the Class A, Class B and Class C preference shares to incorporate voluntary redemption terms at the option of the Company.

Ordinary shareholders and Preference Shareholders with investments in Class A, B and/or C Preference Shares approved the proposed amendments to the MOI in general meetings held on 2 November 2017.

Events after the reporting period

The directors are not aware of any material event, other than the matters listed in the financial statements. Refer to the Integrated Report for more information about these developments. For more information, please consult note 27 (events after the reporting date), set out on page 92 of the consolidated financial statements.

Ordinary dividends

The Company's dividend policy is to consider an interim and a final dividend in respect of each financial period. 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 may pass on the declaration of dividends. No dividends have been declared and no dividend is proposed.

“Providing additional investment products with enhanced flexibility to clients in response to market demands.”



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Preference share dividends

During the current period, the Group introduced a range of new preference share classes to respond to market requirements. The value of preference share dividends paid or accrued during the financial period amounted to R241 143 517 (2017: R127 306 479).

Share capital

During the current period, the issued ordinary share capital of the Company increased by 4 569 shares, issued on 8 May 2018, to 1 079 555 364 (2017: 1 079 550 795) ordinary shares. For more information, refer to note 13 on page 73 of the consolidated financial statements.

Borrowing powers

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, subject to the delegation of authority approved by the Board. The Board has passed a resolution to limit the Group borrowings to R500 million, excluding the liabilities related to the R5bn preference share programme, and provided the shareholders with written notice thereof.

Shareholders approved at the last AGM a general authority allowing the Company to enter into direct

or indirect funding agreements in terms of Section 44 and 45 of the Act. At 30 June 2018, the Group's borrowings, excluding the preference share liabilities, totalled R224.8 million (2017: 11.8 million).

Consolidated financial statements and accounting policies

The consolidated and Company financial statements have been prepared in accordance with IFRS and in the manner required by the Companies Act, the SAICA Financial Reporting Guidelines and the JSE Listings Requirements. The principal accounting policies adopted in preparation of these financial statements are consistent with those of the prior period, as set out in note 1 on page 33.

Non-current assets

The Group's non-current assets increased by 99.2% to R1 420.0 million at 30 June 2018 from 31 March 2017 R713 million.

Movements in non-current assets relate largely to increase in other financial assets, loans and advances and the investment in associates as detailed in notes 6, 7 and 20.

Directorate

Executive directors		Changes during the reporting period
Terence Gregory Chief executive officer		
Dirk van der Merwe Financial Director		Appointed 1 February 2018
Bryan Shanahan Financial Director		Resigned 31 January 2018
Independent non-executive directors		
Richard Connellan: Chairman		
Keith Rayner		
Brandon Topham		
Willem Oberholzer		
Non-executive directors		
George Manyere: Vice chairman		
Patrick Matute		
Eune Engelbrecht		Resigned 31 May 2017



Full details and abridged profiles of the Board of Directors can be viewed on the Group's website www.ecsponentlimited.com/leadership-team/

King IV



Visit www.ecsponentlimited.com/governance/ to view our Corporate Governance statement and King IV application disclosure.

The Group is committed to the principles of openness, integrity and accountability as contained in King IV. The Group has applied and explained the King IV principles as is applicable to the Ecsponent Group.

The Group's audit and risk committee comprises of:

- Brandon Topham (Chairman)
- Keith Rayner; and
- Willem Oberholzer

The audit and risk committee met four times during the period under review, up to the date of the financial statements.

Company secretary

Lezanne du Preez-Cilliers was appointed as the Company secretary for the Group on 1 February 2018.

Auditors

Nexia SAB&T continued in office as auditors for the Group for the 2018 financial period.

At the Annual General Meeting, the shareholders will be requested to reappoint Nexia SAB&T as the independent external auditors of the Group and to confirm Tertius de Kock as the designated lead audit partner for the 2019 financial period.

Sponsor

Questco (Pty) Ltd ("Questco") remains the Company's appointed debt and equity sponsor.

Litigation statement

The Group is not involved in any claims and/or lawsuits incidental to its business which individually or in aggregate are expected to have a material adverse effect on its business or assets.

"The Group is committed to the principles of openness, integrity and accountability as contained in King IV."

“The Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated financial statements have been prepared on a going concern basis.”

Directors' interest in the Company

At 30 June 2018 the directors' direct and indirect beneficial interests in the Company amounted to 60.4% (2017: 63.6%). The change in combined shareholding is attributable to the change in ownership of the majority shareholding to Mason Alexander (Pty) Ltd ("Mason Alexander"), a company in which George Manyere holds an indirect interest.

No associates of any of the directors held any shares at 30 June 2018 or at the date of approval of the consolidated financial statements.

Directors' interest in contracts

The Group entered into an agreement announced on 29 June 2019 in which George Manyere (non-executive director) has an indirect interest. At 30 June 2018 and up to the date of this report, these transactions remain subject to shareholder approval in terms of the JSE Listings Requirements.

Mr Manyere holds an interest in Invest Solar Africa Limited ("ISA") and MHMK Capital (Pty) Ltd ("MHMK") two of the contracting parties. The following transactions trigger the declared director's interest in the contract:

- The acquisition of equity in ISA through a combination of vendor purchases and a private placement;
- The proposed underwriting of ISA's subsequent listing on the Botswana Stock Exchange;
- The acquisition of 40% of MHMK's issued ordinary shares; and
- Entering into a management agreement with MHMK.

At the date of issue of this report the circular to ordinary shareholders, seeking approval for these transaction at a general meeting, was being drafted.

No other transactions or contracts were entered into by directors or officers of the Group which affected the business of the Group.

Interest in subsidiaries

Ecsponent is the holding company of several operating subsidiaries incorporated in the consolidated Group financial statements. The relevant investments in subsidiaries, including the interest of the Group in the profits and losses of its subsidiaries for the period ended 30 June 2018, are disclosed in note 43 of the consolidated financial statements (page 111).

Holding company

The Company reported a change in its major shareholder to Mason Alexander during the 31 March 2017 financial year, with the new shareholder owing 47.5% of the issued Ecsponent shares at 31 March 2017.

Mason Alexander further consolidated its majority shareholding during the 30 June 2018 financial period with the acquisition of additional shares held by the previous major shareholder's on 14 August 2017. At the 2018 reporting date Mason Alexander owned 54.1% of Ecsponent Limited.

Going concern

The directors believe that the Group has adequate financial resources to continue in operation for the foreseeable future and accordingly the consolidated 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 affect 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.

Review of results and financial position



Summary of IR – referring readers to the Integrated report for full text.

The net profit for the period (15 months) ended 30 June 2018 amounted to R97.4 million (2017: R67.6 million). This translates into earnings per share of 9.465 cents (2017: 8.38 cents) based on the weighted average number of shares in issue during the period.

The consolidated and Company financial statements detailed on pages 28 to 137 provide adequate disclosure of the financial results and position for the financial period ended 30 June 2018.

Date of authorisation for issue of financial statement

The consolidated financial statements have been authorised for issue by the directors on 04 October 2018. No authority was given to anyone to amend the financial statements after the date of issue.



“Ecsponent is the holding company of several operating subsidiaries incorporated in the consolidated Group financial statements.”