

# GROUP ANNUAL REPORT

# 2010

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Systems make it possible... People make it happen



# EOH



[www.eoh.co.za](http://www.eoh.co.za)



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## GROUP ANNUAL REPORT

# 2010



# EOH AT A GLANCE

- Leader in Technology and Business Solutions
- Largest implementer of Enterprise Applications Solutions
- Widest range of applications
- Top 5 IT service provider
- End-to-end offering
- Strong black economic empowerment profile
- Operates in South Africa, Africa and the UK
- Listed on the JSE since 1998
- Over 2 000 people

## OUR VISION

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Our vision is to be the best technology and business solutions company to work for, partner with and in which to invest.

## OUR MISSION

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We endeavour to form life-long partnerships by developing business and IT strategies, supplying and implementing solutions and managing enterprise-wide systems and processes for medium to large clients.

## WHAT WE DO

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EOH provides business and technology solutions across all major industry verticals. Our business model embraces consulting, technology and outsourcing. These services are applied to provide high value, end-to-end solutions for our clients.

EOH differentiates itself on the quality of its people. Our people combine best practices with state-of-the-art technologies that ensure delivery of optimum client solutions. EOH not only designs and builds world-class solutions, but through its outsourcing services, it also runs these systems and solutions on behalf of its clients.

## ABOUT EOH

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EOH was established and listed on the JSE in 1998 and, through its strategic partnerships and innovative products and services, has transformed the way businesses view IT.

EOH has delivered good financial results in the past 12 years, realising over 40% compounded revenue growth per annum since its inception, with headline earnings per share higher than 20% in all 24 reporting periods. EOH has grown both organically and through strategic acquisitions and today is regarded as a leader in technology and business solutions.

EOH is the largest enterprise applications provider in South Africa and is one of the Top 5 IT service providers in the region. EOH operates in South Africa, Africa and in the United Kingdom.

EOH's business philosophy is driven by five focus areas, namely Best People, Partner for Life, Right 1st Time, Transformation and Profitable Growth.

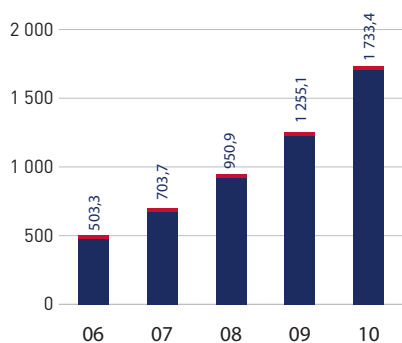
# FINANCIAL HIGHLIGHTS

Revenue	R1 733,4 million	↑	38,1%
Attributable income	R104,4 million	↑	34,1%
EPS	156,5 cents	↑	29,7%
HEPS	156,4 cents	↑	28,3%
Cash	R266,7 million	↑	28,9%
Dividend	36 cents	↑	20,0%

		12 months to 31 July 2010	12 months to 31 July 2009	12 months to 31 July 2008	12 months to 31 July 2007	12 months to 31 July 2006
Revenue	(R'000)	1 733 361	1 255 067	950 934	703 672	503 292
Attributable income	(R'000)	104 396	77 835	60 988	49 038	37 457
Earnings per share	(cents)	156,5	120,7	96,2	78,6	63,4
Headline earnings per share	(cents)	156,4	121,9	96,8	78,8	63,4
Fully diluted earnings per share	(cents)	142,1	104,9	85,7	69,5	54,5
Dividend per share	(cents)	36,0	30,0	25,0	20,0	14,0
Cash	(R'000)	266 671	206 877	119 140	114 136	84 507
Net asset value per share	(cents)	560,0	406,7	328,6	274,1	213,3

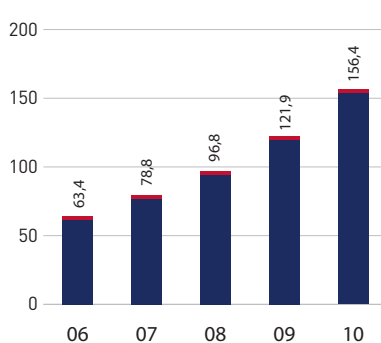
## Revenue

(R millions)



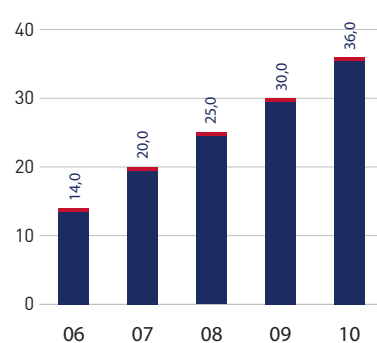
## Headline earnings per share

(cents)



## Dividend per share

(cents)





## BOARD OF DIRECTORS



**Dr Nakedi Mathews Phosa**  
Independent Non-executive Chairman  
BProc, LLB, Honorary PhD in Law  
(University of Boston)  
Re-appointed 27 February 2008



**Asher Bohbot**  
Chief Executive Officer  
BSc (Industrial Engineering), MAP  
Re-appointed 27 February 2008



**Pumeza Bam**  
Executive Director  
BSc (Biochemistry) PMD  
Appointed 15 July 2009



**Lucky Khumalo**  
Non-executive Director  
BSc (Computer Science)  
Appointed 1 May 2010  
(Formerly Executive Director)



**John King**  
Executive Director  
BCom, BAcc, CA(SA)  
Appointed 1 March 2008



**Prof Tshildzi Marwala**

Independent Non-executive Director  
BSc (Mechanical Engineering),  
MSc (Engineering), PhD  
Appointed 22 November 2006  
Nominated for re-election



**Dion Ramoo**

Executive Director  
BSc (Info Proc), CA(SA)  
Re-appointed 22 February 2007  
Nominated for re-election



**Tebogo Skwambane**

Independent Non-executive Director  
BA, MBA (Harvard)  
Appointed 30 July 2008



**Robert Sporen**

Independent Non-executive Director  
CPIM  
Appointed 1 November 2007  
Nominated for re-election



**Jane Thomson**

Executive Director  
Re-appointed 15 February 2006  
Nominated for re-election

# CEO'S OPERATIONAL REPORT

EOH's business philosophy is driven by five key objectives, namely:

## Best people

- To attract, develop and retain the best people

## Partner for life

- To develop lifelong mutually beneficial partnerships with both our clients and technology partners

## Right first time

- Excellent, professional planning and execution in all that we do

## Profitable growth

- Grow the business while ensuring growth in the bottom line

## Transformation

- Transform and manage diversity



**Asher Bohbot**  
Chief Executive Officer

## Overview

EOH has successfully completed its 12th year with another set of excellent results. All of us at EOH are proud of our achievements, especially during these challenging times. We would like to thank all our people for their contribution to the growth of our business and to thank the families of our employees who we know have indirectly sacrificed for the creation of our organisation. We also wish to thank our customers, partners and the investor community for supporting us all these years.

In 2010, EOH surpassed the R1,7 billion revenue mark growing revenue by 38% compared with the previous year. The growth in revenue is attributable to a combination of both organic growth and recent acquisitions. It was a year of successful growth in the infrastructure managed services space and the further expansion of EOH's resourcing business and systems integration businesses.

During the year, the business saw a consolidation of its software testing services culminating in the launch of Global Testing Services, further enhancing EOH's off-shoring capability in this area. The strategic account management initiative, started in the previous year, is bearing fruit and composite solutions are now being sold regularly to EOH's larger clients.

## Financial performance

The board is satisfied with the overall performance for the year under review. Revenue improved by 38,1% over the previous year, whilst profit before tax increased by 36,6% and headline earnings per share by 28,3%.

The statement of financial position remains strong with the growth being financed internally. Cash resources were substantially up from R206,9 million to R266,7 million.

The board has declared a dividend of 36 cents per share.

## Vision and key objectives


The EOH vision is to be the best technology and business solutions company to work for, partner with and in which to invest.

We believe we have the resources, products and service offerings, as well as the people to achieve this vision and consider our organisation extremely relevant in the growth and development of the African continent. We believe that systems make it possible and people make it happen.

## Strategy

EOH lives by its business philosophy, driven by its focus areas of Best People, Partner for Life, Right First Time, Transformation and Profitable Growth. It is this combination that makes EOH successful and its constant drive to ensure that it understands its clients' needs and meets their expectations. EOH operates in all major industries and provides end-to-end solutions from its broad range of service offerings.





**“ Thank you to all our people for their contribution to the growth of our business. ”**

## **Group structure**

### **EOH operating model**

EOH operates as a fully integrated business in the following three broad areas of business:

#### **Consulting**

EOH Consulting Services help clients to understand and excel in a rapidly changing business environment. We help clients create value and architect change through our range of consulting offerings. EOH draws from both global best practice and hands-on experience to craft solutions and drive their practical implementation. We define IT strategies, operations and governance. We optimise our clients' use of their existing assets, reduce cost and leverage new generating opportunities. We align IT with business needs and ensure more effectiveness and agility through cost reduction, standardisation and effective control. We see IT as a driver for business change and ensure that at all times our clients maximise business value through IT.

Our core consulting services include –

- Diagnostics and Analysis;
- IT Strategy and Architecture;
- Business Operations Optimisation;
- Technology Selection;
- Project Management; and
- Change Management.

#### **Technology**

Technology has moved from being a back office activity to a source of competitive advantage and a driver of business strategy. The choice of technologies and the manner in which they are implemented can determine how organisations perform against their given markets.

EOH provides technology services at a strategic, operational and tactical level. We are recognised leaders in both Business Intelligence (BI) and Enterprise Resource Planning (ERP) and are the biggest implementers of ERP systems in South Africa. We are technology agnostic and apply a best of breed approach to all our technology engagements.

Our technology offerings include –

- Enterprise Resource Planning (ERP);
- Business Intelligence (BI);
- Enterprise Security Management;
- Service Management;

- Project and Portfolio Management;
- Software Testing and Quality Management;
- Business Technology Optimisation; and
- Network Solutions and Optimisation.

#### **Outsourcing**

Outsourcing (Managed Services) has moved up the executive agenda. It is now looked on as a service that should be adopted to achieve competitive advantage. Outsourcing in today's world refers to a set of services which range from the most basic to total transformational activities. It is one of the fastest growing services in the IT sector globally. EOH has a broad range of outsourcing services offerings to suit its client's needs.

Our outsourcing services in this area include –

- Infrastructure Managed Services;
- Desktop Managed Services;
- Technical and Application Managed Services;
- Business Process Managed Services;
- Resourcing;
- Software as a Service (SaaS);
- Cloud Computing;
- Infrastructure; and
- Virtualisation.

## **EOH'S approach to client engagements**

Our approach is to fully understand our clients' business systems requirements, be that for a point solution or an integrated one. We work closely with our clients to define the need, understand the benefits, develop the solution and implement it. We pride ourselves on our ability to collaborate internally and where appropriate with third party vendors.

Our typical engagement model is tailored to each client situation and includes the following broad steps –

- Business Consulting;
- Solution Crafting;
- Solution Delivery; and
- Solution Management.

**Business Consulting** – Diagnose problems against industry and process best practice templates.

**Solution Crafting** – Develop a conceptual blue-print of the proposed changes inclusive of process, structure, technology and operations.

**“ We are technology agnostic and apply a best of breed approach to all our technology engagements. ”**

**Solution Delivery** – Develop best practice model detailing process, structure, technology and operations. Put the solution in place through an impact analysis, acceptance testing, change management plan and effective project planning.

**Solution Management** – Support and manage technology on behalf of the client through our managed services.

Our services and solutions are supported throughout by our change and project management methodology that ensures successful and enduring change every time. This is EOH's Right 1st Time methodology which is integral to all our product and service engagements.

### Operational review

#### Consulting Services

All EOH's business units include an element of consulting services, some directly associated with the product and other consulting services which are product agnostic. EOH continues to help its clients craft solutions that will enhance their IT capability from which they will derive both efficiency and effectiveness. EOH's consulting capability remains a differentiator from its competitors and continues to be an essential part of EOH's revenue stream.

#### Technology Services

EOH is recognised as the leader in the applications space and offers solutions across all the significant business applications that businesses require. Through the application of EOH's Right 1st Time methodology, we have implemented world-class solutions using a combination of world-class processes, best in class methodologies and effective project management and change management.

This area continues to be the most dominant area of EOH's revenue stream emanating from the sale and implementation of new applications, upgrades, enhancements and re-implementations and the sale of the infrastructure products to support these and existing applications of the client.

#### Outsourcing

Outsourcing, coupled with Business Process Outsourcing (BPO), has grown significantly over the past year and will continue to be one of the growth areas over the next few years. EOH provides both infrastructure and application managed services to its broad client base and is well-positioned to offer its clients a virtualised IT environment. EOH will continue to grow its BPO service offerings, taking advantage of EOH's IT capability which is the backbone of most business processes.

#### Transformation

EOH is committed to the empowerment of those who have been economically marginalised and previously disadvantaged. EOH aims to create a work environment that promotes equal opportunities for all and to ensure that the future environment, within which we work, reflects the demographics of South African society.

EOH is certified as a Large Enterprise Level 3 Contributor (AA Rating) with BEE Procurement Recognition of 138% due to it being a recognised Value Adding Vendor.

EOH's BEE strategy is aligned with the ICT BEE Charter, according to the seven components of transformation.

#### ■ Equity Ownership

EOH has a 34,81% broad-based effective black ownership with the establishment of the Mthombo Trust in 2006 as the main catalyst. We will continue to strive to improve this percentage.

#### ■ Management and Control

Black people currently hold six of the ten directors positions on the EOH Board, two of which are in executive directorship positions, four in non-executive positions with Dr Nakedi Mathews Phosa holding the non-executive chair.

#### ■ Employment Equity

EOH complies with the requirements of the Employment Equity Act and has a process of continuous improvement for all its employees. EOH has an EE staff complement of 48%.

### ■ Skills Development

EOH's skills development policy meets the aims and objectives of the Skills Development Act, implemented at operational level by each business unit. EOH Academy, the group's in-house training division, accredited through the Services SETA, plays a vital role in developing employees through its various training initiatives. Employees also attend external training programmes and seminars in line with their functional requirements and to uplift their personal skills.

We have learnership agreements as part of our commitment towards the development of skills and experience of PDIs' within the ICT sector and where possible we offer permanent employment to successful learners.

### ■ Preferential Procurement

We have developed and implemented policies and procedures which has enabled us to achieve over 85,25% procurement from black-owned and black-controlled enterprises.

### ■ Enterprise Development

Through joint ventures with black SME's, we encourage and support black entrepreneurs to participate in business opportunities and more specifically provide business loans to black-owned development companies in our sector. We are committed to share our knowledge and expertise to enable black entrepreneurs to develop sustainable business models.

### ■ Access to ICT and Corporate Social Investment

Our CSI Strategy is to educate, train, coach and provide support to community-based organisations (CBO's).

The group's involvement with CBO's is done on a regional basis. The support provided is Strategy Development, Project Planning and Co-ordination, Project Management Training, Administration Training, General Business Education and Coaching. EOH has made a significant investment in the Maths Centre for Teachers to ensure that many more learners matriculate with maths and science – key skills required in our industry.

### Future plans

EOH will continue to grow both organically and as a result of strategic acquisitions across all areas of its business, namely services (consulting, systems implementation and integration and managed services), software sales and the sale of infrastructure products.

EOH will be focusing on increasing its managed services business – in both infrastructure and applications, such services being provided onsite at the client and remotely through its hosting and network offerings. EOH will also be expanding its Business Process Automation, Storage and Virtualisation, Application Testing and Monitoring and IT Security Solutions offerings.

EOH has a solid existing client base in all major industry verticals and will continue to grow with these clients providing their IT needs. EOH has the ability, management, track record and resources to grow aggressively.



# CORPORATE GOVERNANCE

## Corporate governance

The board of directors ('the board') is committed to the concept and principles of effective corporate governance. The directors recognise the need for adherence to generally accepted corporate governance practice in all spheres of business activities.

## The board of directors

Full details of the directorate are set out on page 18.

The board is making good progress with regards to complying with the recommendations of King III. The board has, however, acknowledged the need to take further steps towards compliance with these recommendations. Currently there are five non-executive directors of which four are independent.

The appointment of directors is approved by the board after an extensive search and interview process, and appointments are made in a formal and transparent manner. The directors bring to the board a wide range of expertise and experience and in the case of the non-executive Chairman, a perspective and judgement on issues of policy, strategy and performance. Mathews Phosa, although unable to preside over the board meetings during the year, met with the Lead Independent Director, Rob Sporen, and the Chief Executive Officer, Asher Bohbot, on a regular basis, prior to and post-board meetings to provide input. The board believes that an appropriate policy is in place to ensure that a balance of power and authority amongst directors exist so that no one director has unfettered powers of decision-making.

In accordance with the company's policy, all directors are subject to retirement by rotation and re-election by shareholders on a regular basis – generally every three to five years.

The board is responsible for setting the direction of the group through the establishment of strategic objectives and policies and takes overall accountability for the group by taking responsibility for its management. The board retains full and effective control over the group and all material decisions are reviewed by the board.

The board meets at least quarterly to consider results and performance and to monitor issues of strategic direction and to consider any other issues having a material effect on the group. Where a non-executive director is unable to attend a meeting, independent discussions and input is obtained and imparted at the board meeting.

During the year under review the attendance at directors' meetings was as follows –

Directors	8 June 2010	15 March 2010	1 December 2009	14 September 2009
Mathews Phosa	No	No	No	Yes
Asher Bohbot	Yes	Yes	Yes	Yes
Pumeza Bam	Yes	Yes	Yes	Yes
Lucky Khumalo	No	Yes	Yes	No
John King	Yes	Yes	Yes	Yes
Tshilidzi Marwala	Yes	Yes	Yes	Yes
Dion Ramoo	Yes	Yes	Yes	Yes
Tebogo Skwambane	Yes	Yes	Yes	No
Rob Sporen	Yes	Yes	Yes	Yes
Jane Thomson	Yes	Yes	Yes	Yes
Adri Els (Secretary)	Yes	Yes	Yes	Yes

The roles of Chairman and Chief Executive Officer are separate. The Chief Executive Officer, Asher Bohbot, ensures that the day-to-day business affairs of the group are properly managed. The board appoints the company secretary and all directors have access to the advice and services of the company secretary.

Details of the directors' emoluments are set out on page 56 and 57 of the annual report.

## Board committees

Committees are established to assist the board in performing its duties, and the board is free to form or disband committees as is deemed appropriate. The board has appointed an Audit Committee, Remuneration Committee and more recently a Risk Committee. The objectives of these committees are presented below.

### Audit Committee

The group's Audit Committee is no longer chaired by the Chairman of the board to comply with the guidelines of King III. It is chaired by Rob Sporen, an independent non-executive director. This committee formally meets at least twice a year prior to the publication of the group's interim and final results.

The Audit Committee's responsibilities are varied and include –

- Assisting the board of directors to fulfil their responsibilities of ensuring that the systems of internal control, accounting practices, management information systems, financial reporting systems and auditing processes are functioning effectively.
- Facilitating the effective communication between the board of directors, management and the external auditors.
- Facilitating the credibility, objectivity and reliability of published financial reports and ensuring that the financial statements comply with IFRS, thereby providing an objective, independent forum for the resolution of significant accounting and reporting-related matters.
- Promoting overall effectiveness of corporate governance.
- Evaluating the independence and effectiveness of the external auditors and evaluating and considering their involvement in non-audit services.
- Monitoring the ethical conduct of the company, its executives and senior officials.

The external auditors have unfettered access to the chairman of the Audit Committee and all of its members throughout the year.

During the year under review the Audit Committee meetings were attended as follows –

Directors	15 March 2010	1 December 2009	14 September 2009
Rob Sporen	Yes	Yes	Yes
Asher Bohbot	Yes	Yes	Yes
John King	Yes	Yes	Yes
Tebogo Skwambane	Yes	Yes	No



## Risk Committee

The Risk Committee is constituted as a committee of the board and chaired by a non-executive director. The committee consists of two non-executive directors and the Executive Committee of EOH.

The role of the committee is to assist the board and company to implement effective policies and an effective plan for risk management.

The primary responsibilities of the Risk Committee include –

- Overseeing the development and annual review of a policy and plan for risk management.
- Monitoring the implementation of the policy and plan for risk management.
- Making recommendations to the board concerning the level of risk tolerance.
- Overseeing that the risk management plan is widely disseminated throughout the company.
- Ensuring that the risk management assessments are performed on a continuous basis.
- Ensuring that the frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks.
- Ensuring that management considers and implements appropriate risk responses.
- Ensuring that continuous risk monitoring by management takes place.
- Liaising closely with the Audit Committee.
- Expressing the committee's formal opinion to the board on the effectiveness of the system and process of risk management.

During the year under review the Risk Committee met once and the attendees were as follows –

Directors	31 August 2010
Rob Sporen	Yes
Tebogo Skwambane	Yes
Executive Committee	Yes

## Remuneration Committee

The Remuneration Committee is chaired by a non-executive director and includes the Chief Executive Officer, Group Financial Director and the Human Resources Director.

The Remuneration Committee is responsible for reviewing and approving the remuneration of directors and senior management as well as recommending the appointment of directors to the board.

In determining the remuneration of executives, the Remuneration Committee aims to provide appropriate packages required to attract, retain and motivate the executives whilst giving due consideration to remuneration levels, both within and outside the group. To meet these objectives, the committee takes advice from external remuneration specialists from time to time.

During the year under review the Remuneration Committee meeting was attended as follows –

Directors	8 June 2010	20 October 2009
Asher Bohbot	Yes	Yes
Pumeza Bam	Yes	Yes
Lucky Khumalo	No	Yes
John King	Yes	Yes
Tebogo Skwambane	Yes	No

## Company secretary

The board appoints the company secretary whose responsibilities include assisting the chairman in co-ordinating and administering the operation of the board, providing guidance on the discharge of director responsibilities, implementing governance procedures and ensuring that the group complies with all statutory requirements.

All directors have access to the advice and services of the company secretary and, in appropriate circumstances, are entitled and authorised, at the company's expense, to seek independent professional advice concerning the affairs of the company. The company secretary is responsible for ensuring that board procedures and applicable rules and regulations are fully observed.

The company secretary is Adri Els, CA(SA).

## Code of Ethics

All employees of the group are required to maintain the highest ethical standards to ensure that the group's business practices are conducted in a manner which in all circumstances is above reproach. To this effect all employees are required to sign a 'work life constitution' document. A culture of individual employees assuming personal responsibility for their actions is encouraged, as is a culture of full disclosure. A code of ethics has been formally adopted by the board.

## Accountability and accounting

The CEO is responsible for all group operations. Divisional and group management accounts are prepared monthly, comparing actual results against approved budgets.

## Risk management

### Accountability

The board is responsible and accountable for ensuring that adequate procedures and processes are in place to identify, assess, manage and monitor key business risks.

### Internal control

Operational and financial risks are managed through the implementation and maintenance of a system of internal and financial controls designed to provide reasonable assurance as to the integrity and reliability of the financial information presented and to safeguard the group's assets adequately. These internal controls are monitored regularly.

# CORPORATE GOVERNANCE (continued)

No incidents have come to the attention of the board that would indicate any material breakdown in these internal controls during the year.

The group's assets are insured against loss, cover being taken out above pre-determined self-insurance levels.

## Critical business processes

In the case of a disaster, business continuity plans will ensure that the business, both from an IT and operational view point, continues with the least amount of disruption.

## Going concern

The going concern basis has been adopted in preparing the annual financial statements. Based on forecasts and available cash resources, the directors have no reason to believe that the group will not continue as a going concern for the foreseeable future.

## Relationships

### Employment equity

The group provides equal employment opportunities and has a strong culture of internal promotion and upliftment of its people.

The company has an employment equity plan which was compiled in consultation with employee representatives and which is lodged with the Department of Labour in line with the required reporting dates each year. The major objectives adopted in this plan are –

- The promotion of equal opportunities and fair treatment in employment through the elimination of unfair discrimination.
- The promotion of affirmative action measures to redress any disadvantages in employment experienced by designated groups, and to ensure equitable representation in all occupational categories and levels in the workplace.

An Employment Equity Committee, amongst other responsibilities, monitors the implementation of the plan. Training and development of employees from the designated groups forms an important component of the plan and attention will be focused on accelerated development of the previously disadvantaged groups.

### Black Economic Empowerment strategy

34,81% of EOH is effectively black owned and in time this effective holding will increase. EOH has a Black Economic Empowerment ("BEE") Plan which is based on a 10-point strategy, as follows –

- Equity participation;
- Collaborative partnerships;
- Board structure;

- Customer involvement;
- Management development programme;
- Supplier participation;
- Employment and mentorship programme;
- Corporate social investment;
- Joint ownership; and
- Legal requirements.

The current profile is as follows –

- 34,81% broad-based effective black ownership in EOH.
- 48% black employee profile.
- Staff in excess of 2 000.
- Six black directors, including two executives and four non-executive of which one is the non-executive chairman.

EOH believes that the most effective way to achieve broad-based empowerment is to involve its BEE employees. This has been accomplished through the Mthombo Trust.

### Worker participation

The group has an established and well-recognised policy of encouraging employee involvement on a wide range of issues. Various participative structures are designed to achieve good employer/employee relationships through effective sharing of relevant information, consultation and the identification and resolution of conflict. The purpose is to ensure that all employees are afforded equal opportunity for reward and progress based on ability and merit.

### Health and safety

The company is committed to ensuring a safe working environment for all its employees. In this regard a manager within the group is responsible for ensuring compliance with all relevant health, safety and environmental legislation.

Employee health and safety representatives and first-aiders have been appointed for designated areas and have been appropriately trained to fulfil their functions.

### Dealings in company shares

All dealings in the shares of the company by directors are reported on JSE Securities Exchange South Africa News Service, within 48 hours of the trade having been made.

Directors and officers are not permitted to trade in the group's listed shares during 'closed periods', which run from the day of the financial half-year and year-end until the publication of the interim and preliminary results announcements, respectively.