



adcorp
Connecting Potential

Adcorp Holdings Limited
Audited company annual
financial statements

for the year ended 29 February 2020

Contents

3	General information
4	Directors' responsibilities and approval
4	Company Secretary compliance statement
5	Directors' report
9	Report of the Audit and Risk Committee
12	Independent auditor's report
18	Statement of financial position
19	Statement of profit or loss and other comprehensive income
20	Statement of changes in equity
22	Statement of cash flows
23	Accounting policies
25	Notes to the annual financial statements
52	Annexure A: Details of subsidiaries and associates
54	Shareholder information
57	Administration

General information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	The Group has subsidiaries that carry on business in South Africa and Australia. Areas of activities include the permanent recruitment and flexible staffing sectors, professional IT services, as well as the provision of business process outsourcing, training and financial services.
Directors	GT Serobe (Chairman) P Roux (Chief Executive Officer) P Mnganga GP Dingaan H Singh SN Mabaso-Koyana C Maswanganyi FS Mufamadi S Sithole MW Spicer MM Nkosi R van Dijk C Smith M Lubega
Business address	102 Western Service Road Gallo Manor Extension 6 Woodmead Johannesburg 2191
Postal address	PO Box 70635 Bryanston 2021
Bankers	First National Bank
Auditor	Deloitte & Touche
Secretary	Z Lachporia (appointed 08 July, resigned 25 July 2019) Fluidrock Co Sec Proprietary Limited (appointed 25 July 2019, resigned 30 April 2020) L Laporte (appointed 01 May 2020)
Company registration number	1974/001804/06
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The annual financial statements were independently compiled by: Ernst & Young Advisory Services Proprietary Limited Gisela Pieterse CA(SA)
Supervised by	These annual financial statements were prepared under the direction and supervision of Rochelle Warries CA(SA), Group Financial Executive
Issued	30 July 2020

Directors' responsibilities and approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 30 July 2021 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The company's external auditor is responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditor and their report is presented on pages 12 to 17.

The annual financial statements set out on pages 18 to 53, which have been prepared on the going concern basis, were approved by the board of directors on 30 July 2020 and were signed on their behalf by:



Phil Roux
Chief Executive Officer

Company Secretary compliance statement

I certify that, to the best of my knowledge and belief, the company has lodged with the Companies and Intellectual Property Commission (CIPC) all such returns as are required of a public company in terms of the Companies Act, No 71 of 2008, as amended, in respect of the year ended 29 February 2020 and that all such returns appear to be true, correct and up to date.



Lisa Laporte
Company Secretary
30 July 2020

Directors' report

The directors have pleasure in submitting their report on the annual financial statements of Adcorp Holdings Limited for the year ended 29 February 2020.

Nature of business

The company is an investment holding company and has subsidiaries that carry on business in South Africa and Australia. Areas of activities include the permanent recruitment and flexible staffing sectors, professional IT services, as well as the provision of business process outsourcing, training and financial services.

There have been no material changes to the nature of the company's business from the prior year.

Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year, with exception to the changes in note 3.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

Share capital

	2020		2019	
	Number of shares			
Authorised				
Ordinary shares of 2.5 cents each	183 177 151		183 177 151	
Class B ordinary shares of 2.5 cents each	16 822 849		16 822 849	
Issued	2020	2019	2020	2019
	R'000	R'000	Number of shares	
Ordinary shares of 2.5 cents each	2 749	2 749	109 954 675	109 954 675
Class B ordinary shares of 2.5 cents each	421	421	16 822 849	16 822 849
	3 170	3 170	126 777 524	126 777 524

There have been no changes to the authorised or issued share capital during the year under review.

Directorate

The directors in office at the date of this report are as follows:

Directors	Changes
GT Serobe	
CJ Kujenga	Resigned 31 May 2020
P Mnganga	
GP Dingaan	
I Dutiro	Resigned 08 October 2019
H Singh	
SN Mabaso-Koyana	
C Maswanganyi	
TP Moeketsi	Resigned 06 June 2019
ME Mthunzi	Resigned 06 June 2019
FS Mufamadi	
S Sithole	
MW Spicer	
MM Nkosi	Appointed 06 June 2019, previously an alternate director
R van Dijk	Appointed 06 June 2019
C Smith	Appointed 10 January 2020
P Roux	Appointed 23 April 2020
M Lubega	Appointed 01 July 2020

Directors' report continued

Dividends

No dividend was declared for the financial year ended 29 February 2020 (FY2019: R106 million). The dividend for FY2019 amounted to 96.10 cents per ordinary share and was paid out to registered shareholders on 19 August 2019.

The register of interests of directors and others in shares of the company is available to the shareholder on request. There have been no changes in beneficial interests that occurred between the end of the reporting period and the date of this report.

Directors' interests in contracts

The register of interests of directors and others in shares of the company is available to the shareholder on request. There have been no changes in beneficial interests that occurred between the end of the reporting period and the date of this report.

Auditors

The Audit and Risk Committee has nominated, for re-election at the annual general meeting of shareholders, Deloitte & Touche to continue in office in accordance with section 94(7) of the Companies Act of South Africa.

Secretary

The company secretary is Lisa Laporte, appointed 1 May 2020.

Ms Laporte has taken over from Fluidrock Co Sec Proprietary Limited who had been Company Secretary from July 2019 to 30 April 2020. The Board is satisfied that Lisa has the requisite knowledge of, or experience in relevant laws to fulfil the role, as they had satisfied themselves of same for Fluidrock Co Sec Proprietary Limited.

Events after the reporting period

In terms of IAS 10 *Events* after the reporting period, non-adjusting post balance sheet events are events after the reporting period that are indicative of a condition that arose after the reporting period ended 29 February 2020.

Restructure initiatives

The company has implemented a numbers of initiatives to improve liquidity and operational performance in the short to medium term and to ensure long-term sustainability of the Group. These initiatives are aimed at rightsizing the cost base of the entities in the Group and improving overall performance. Substantial cost reduction plans have commenced and will be concluded by the end of the 2021 financial year.

While the plan is still in its infancy phase, there have been signs that it is starting to yield positive results even at this early stage. Management will continue to track and monitor against these set targets monthly. Changes were also made to the executive team with a new Chief Executive Officer and Chief Commercial Officer being appointed in April and May respectively. A new Chief Financial Officer will be appointed in due course.

Covenant waiver

A covenant waiver was concluded in June 2020 with the South African lenders during the month of June 2020. The waiver was concluded following the company reporting a breach in covenants in the measurement period ending 29 February 2020. The company reported non-compliance in the following areas:

- Leverage ratio exceeding the covenant standard; and
- Interest cover ratio

The directors have reviewed management's strategy, COVID-19 response plan and budgets for the coming financial year and believe that the company will comply with the covenants as set out in the renegotiated debt extension agreement.

Debt extension and restructure

The South African operations have extended the facility to May 2022, and has been restructured from an amortisation payment plan to bullet payments. The facility is used primarily to fund working capital requirements. The revised terms of the facility include a reduction of the debt by R600 million by July 2021, which has been factored into the going concern analysis.

Disposal of non-core assets

Management has identified non-core assets which could be disposed of to assist in meeting the requirements of the restructured debt. The company has commenced with the disposal of these assets, with non-binding expressions of interest received for these assets.

Financial Services division

In the period after 29 February 2020, but prior to the issuance of the annual financial statements, the Group's management and Board of Directors approved the sale of the Financial services division. Adcorp Financial Services is housed within Adcorp Support Services Proprietary Limited, a subsidiary of Adcorp Holdings Limited. A programme to market the asset was launched and numerous negotiations took place with potential buyers subsequent to the reporting period. The disposal is consistent with the Group's long-term strategy to focus its activities on its core capabilities and to utilise the proceeds from the sale of assets to reduce the Group's gearing.

As at 29 February 2020, Financial Services did not meet the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* for disclosure purposes. The operating profit included in profit or loss for the year relating to Financial Services was R53 million.

Impact of COVID-19

COVID-19 existed globally at the reporting date. COVID-19 in itself is not an event, however, the National State of Emergency and the lockdown are events which occurred after the reporting date as a result of COVID-19. It was concluded that the declaration of COVID-19 as a pandemic is a non-adjusting event. The impact of COVID-19 on accounting standards that require the use of forward-looking information (expected credit losses) was assessed based on information available as at 29 February 2020.

As the pandemic increases in both magnitude and duration, entities are experiencing conditions often associated with a general economic downturn, including, but not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn that could have a prolonged negative impact on an entity's financial results.

Management has considered the potential impacts on the company by taking a number of factors into consideration, including the macro-economic impact as well as the future revenue of the company. The company forecasts were stress tested.

Government intervention appears to be slowing the spread of COVID-19 at different speeds in different countries. The severity will be influenced by the lockdown period and the easing thereof. It is anticipated that the COVID-19 pandemic may have a substantial impact on revenue, countered by material reduction in expenses. Therefore the residual impact on profitability for the year ending 28 February 2021 is not expected to be significant. It is, however, not possible to make an accurate estimate of its full financial effect for the year ahead as the virus's infection rate and impact on macroeconomic conditions is uncertain.

The directors are not aware of any other events after the reporting period that will have an impact on financial position, performance or cash flows of the company.

Going concern

In preparing the annual financial statements, the directors are responsible for evaluating the company's ability to continue as a going concern. The directors have assessed the economic environment, current financial position and the company's cash flow position for the next 12 months. The liquidity and solvency position has also be reviewed as part of this assessment.

Solvency

As at 29 February 2020, the company had a retained loss balance of R825 054 000 and the company's total assets exceed its liabilities by R1 202 937 000.

Liquidity

In assessing the liquidity position, a cash flow forecast was prepared up until 30 June 2021, which took into consideration the restructuring initiatives, the disposal of non-core assets, extension of facilities and the reduction of debt. Collectively, these indicate that the company will have sufficient cash resources for the period under review. Furthermore, the cash position is monitored on a daily basis by management. In evaluating the cash flow forecast for the period under review, some assumptions were made and are listed below:

- The reduction of debt.
- Positive results from the restructuring initiatives to turn around the underlying business.

Debt reduction

The company has committed to reducing its South African debt levels by R600 million. This will be achieved through improved operational cash flows and collections, the sale of non-core assets and/or an equity capital raise, if required. The Board and management are confident of achieving the agreed milestones.

Restructuring initiatives

The company has implemented a number of initiatives to improve liquidity and operational performance in the short to medium term and to ensure long-term sustainability of the Group. These initiatives are aimed at rightsizing the cost base of the Group and improving overall performance. Substantial cost reduction plans have commenced and will be concluded by the end of the current financial year. While the plan is still in its infancy phase, there have been signs that it is starting to yield positive results even at this early stage. Management will continue to track and monitor against these set targets monthly.

Changes were also made to the executive team with a new Chief Executive Office and Chief Commercial Officer being appointed in April and May respectively. A new Chief Financial Officer will be appointed in due course.

Directors' report continued

Going Concern Conclusion

The board is focused and committed to the restructuring initiatives and debt reduction of the company. The directors are also of the view that there are no material uncertainties that cast doubt on the company's ability to operate. The directors are also satisfied that the company has sufficient resources, or access to resources, to continue with all operating activities for the foreseeable future. Based on this assessment, the directors have no reason to believe that the company will not be a going concern for the foreseeable future.

Financial support

The shareholders of the company have passed a special resolution at the annual general meeting (AGM) (held on 30 July 2019). The special resolution authorises the directors in terms of and subject to the provision of section 45 of the Companies Act to cause the company to provide direct or indirect financial assistance to any company or corporation or future company or corporation which is related or interrelated to the Company for such amounts and on such terms and conditions as the board of the company may determine.

Compiler of annual financial statements

The compiler was responsible for preparation of the annual financial statements based on information provided by management and worked under the supervision of management. Management is responsible for these annual financial statements and a copy of the compilation report is available on request from management.

Compliance with applicable laws

The Board hereby confirms that the Company is:

- In compliance with the provisions of the Companies Act or laws of establishment, specifically relating to its incorporation; and
- Operating in conformity with its MOI and/or relevant constitutional documents.

Report of the Audit and Risk Committee

The company's independent Audit and Risk Committee (the committee or ARC) presents its report for the financial year ended 29 February 2020. The committee's duties and objectives, as mandated by the Board, allow it to discharge its statutory and other Board-delegated duties in keeping with its terms of reference. These duties are briefly set out in this report.

Composition, meetings and assessment

The four members of the ARC were recommended by the Board to the shareholders and were formally appointed at the previous annual general meeting held on 30 July 2019.

Closed sessions are arranged with key relevant parties and private sessions of members are held from time to time to ensure confidential assessments and discussions can occur. Four committee meetings are held during the year.

In line with King IV™, the Board and its Committee should be assessed once every two years and this was performed during the 2019 financial year, following the assessment of 2017.

Roles and responsibilities

The committee is satisfied that it has executed its responsibilities in keeping with the requirements of the Companies Act of South Africa, the JSE Listings Requirements and the recommendations of King IV™, as well as additional requirements prescribed by its terms of reference, which have been endorsed by the Board of Directors. Its key areas of responsibilities are to:

- perform its statutory duties as prescribed by the Companies Act of South Africa, including the appointment and the assessment of the independence of the external auditors;
- oversee the integrated reporting process and assess disclosures made to all stakeholders, which included the financial statements for the year under review;
- oversee and evaluate the governance of risk and the related internal control environment, and consider the recommendation of the Chief Audit Executive in respect of the effectiveness of the system of internal controls;
- monitor and assess all internal and external assurance providers;
- assess key audit matters;
- assess the expertise and experience of the Chief Financial Officer (CFO) and the resources within the financial function; and
- recommend the financial statements for approval by the Board.

In order to execute her responsibilities, the Chairman of the Committee met separately during the course of the year with the Chief Financial Officer, Chief Audit Executive, the Company Secretary, the Chief Risk Officer, management and the external auditors.

External auditor appointment and independence

The committee satisfied itself that the appointment of the external auditor has been done in accordance with the provisions of section 22 of the JSE Listings Requirements and that all requisite information in this regard has been received to enable it to arrive at this consensus.

The committee satisfied itself that the external auditor of the Company is independent. The requisite assurance was sought and provided by the auditor that the internal governance processes within the audit firm support and demonstrate its claim to independence.

The committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the year under review. There is a formal procedure and policy that governs the process whereby the auditor is considered for non-audit services.

The committee continuously assesses the impact of the overall audit professional environment and current challenges. The external auditors shared their risk management priorities and their response thereto. The committee thus satisfied itself of the continued independence and competence of the external auditor.

The Audit and Risk Committee has nominated, for re-election at the annual general meeting of shareholders, Deloitte & Touche to continue in office in accordance with section 94(7) of the Companies Act of South Africa.

Partner rotation

In terms of the Companies Act rotation rules, the individual auditor is required to rotate from audit engagements after a period of five years. Mr Eric Tshabalala's term will come to an end upon sign-off of the Adcorp Group's 29 February 2020 results. Mr Thega Marriday has been recommended by the Deloitte Africa Executive as the designated individual auditor for Adcorp Holdings Limited for the 28 February 2021 engagements and beyond. Mr Thega Marriday is listed as an accredited auditor in the most recent Accreditation of JSE Auditors and Advisors letter.

Financial statements and accounting policies

The committee has assessed the Company's accounting policies and the financial statements for the year ended 29 February 2020 and it is satisfied that they are appropriate and comply in all respects with the International Financial Reporting Standards (IFRS). The committee has reviewed the JSE proactive monitoring reports and ensured that all findings have been addressed for each year the report was issued. The committee supports the opinion of the board and the external auditor with regard to the financial statements which have been approved by the Board and will be presented to the shareholders at the annual general meeting to be held on 28 August 2020.

Report of the Audit and Risk Committee continued

Based on the information and explanations given by directors and the internal and external auditors, the committee is of the opinion that the accounting and internal controls, including the internal financial controls, are adequate and that the financial records may be relied upon for preparing the financial statements in accordance with IFRS and maintaining accountability for the Company's assets and liabilities.

Integrated annual report

The committee fulfils an oversight role regarding the integrated reporting process.

Accordingly, the committee:

- has considered the 2020 integrated annual report and has assessed the consistency with operational, financial and other information known to the committee members, and for consistency with the financial statements;
- is satisfied that the 2020 integrated annual report is materially accurate, complete and reliable and consistent with the financial statements; and
- recommended on 28 July 2020, the company financial statements for the year ended 29 February 2020 for approval by the Board.

Governance of risk

The committee is responsible for overseeing the governance of risk across the company. During the year the committee revisited the risk management framework and determined how to ensure effective cascading of integrated assurance across the various board committees. The committee also provided oversight on the working company set up by management to review combined assurance for Adcorp. Designing and implementing robust risk management structures in the company will remain a key focus area for the committee in FY2021.

Nothing has come to the attention of the committee to indicate that any material breakdown in the functioning of internal controls resulting in material loss to the company has occurred during the year and up to the date of this report.

Internal audit

The committee is mandated to ensure that the Internal Audit function is independent, properly resourced and effective within the company. The position of Chief Audit Executive (CAE) was impacted by organisational rightsizing and restructuring activities. The position was made redundant in the organisational structure. In order to fulfil the duties of the role, Ernst & Young (an independent professional services provider) has been appointed as the Lead Internal Auditors, reporting to the committee.

Significant areas of judgement

In arriving at the figures disclosed in the consolidated financial statements, there are certain areas where judgement is needed. The ARC has considered various elements of the consolidated financial statements that require judgement and provide additional commentary on the following:

- Going concern
- Impairment assessment of investments and intercompany loans receivable

Going concern

In preparing the annual financial statements, the directors are responsible for evaluating the company's ability to continue as a going concern and therefore the appropriateness of the going concern assumption in the preparation of the financial statements. The directors have assessed the economic environment, current financial position, and the Company's expected cash flows for the next 12 months through to the end of July 2021.

Management considered three different scenarios when performing the going concern assessment which involved different assumptions and decision levers that could be influenced. The liquidity and solvency position has also been reviewed as part of this assessment and the impact of each scenario shows positive cash balance as a result. Details of the three different scenarios are set out in note 28.

The directors are satisfied that there are no material uncertainties that cast doubt on the Company's ability to operate as a going concern and that the company has sufficient resources, or access to resources, to continue with all operating activities for the foreseeable future. Based on this assessment, the directors consider it appropriate to adopt the going concern assumption for the preparation of the 2020 financial statements.

Financial reporting and close process

The company has had changes in the executive management team, most significantly in the finance team and particularly the office of the Chief Financial Officer. The significant judgements needed to be signed off over the financial close period and in the absence of the CFO, the Audit and Risk Committee convened to assist the finance team during this process. The company is in the process of recruiting a permanent CFO. An interim CFO was appointed on 15 June 2020.

The company considered the impact of the COVID-19 pandemic on the financial results, as well as subsequent to the reporting period. Refer to note 29 of the annual financial statements.

Evaluation of expertise and experience of the Chief Financial Officer and the finance function

The committee has considered and is satisfied with the appropriateness of the expertise and experience of the Chief Financial Officer, Ms. CJ Kujenga. Following the resignation of Ms Kujenga (effective 31 May 2020), Noel Prendergast was appointed as the interim Chief Financial Officer (effective 1 July 2020). During the transition, the committee continues to provide its support to the process under way to continue to strengthen the finance function.

Impairment assessment of investments and intercompany loans receivable

Following an observable decline in business results in the subsidiaries, management performed an impairment assessment at 29 February 2020. Key assumptions include the discount rate and cash flows used to determine the value in use. Future cash flows are estimated based on the most recent budgets and forecasts approved by management covering periods between three to four years and are extrapolated over the useful life of the asset to reflect the long-term plans for the Group using the estimated growth rate for the specific business.

In assessing the recoverability of loans made to subsidiary companies made by management, the committee has considered:

- The financial position of the subsidiary from whom the loans are recoverable;
- The net asset value of the subsidiary; and
- The financial performance of the subsidiary in the financial year ended 29 February 2020.

The committee observed an increase in credit risk to the loans made to the following subsidiaries as a result of the deterioration of the abovementioned considered financial metrics:

- Adcorp Fulfilment Services Proprietary Limited
- Adcorp Staffing Solutions Proprietary Limited

As a result, an ECL provision was raised against the loans to the extent that the subsidiary requires support to return it to a positive net asset value position.

Investment in subsidiary	Valuation model	Post-tax discount rate	Terminal growth rate applied	Impairment (loss)/ reversal recognised R'000
FMS Marketing Proprietary Limited	Discounted cash flow model	16.56%	3%	64 330
Adcorp Workforce Management Solutions Proprietary Limited	Discounted cash flow model	18.60%	3%	(238 823)
Paxus Holdings	Discounted cash flow model	14.00%	2% – 2.5%	—

The Audit and Risk Committee has access to all financial information of the company, including the financial information of all entities within the Group.

The Audit and Risk Committee has requested and has been provided with all decision letters/explanations issued by IRBA or any other regulator and any summaries relating to monitoring procedures/deficiencies issued by Deloitte & Touche.

The committee is satisfied that it has met the requirements of its terms of reference.



SN Mabaso-Koyana

Chairman of the Audit and Risk Committee

30 July 2020

Independent auditor's report

To the Shareholders of Adcorp Holdings Limited

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Adcorp Holdings Limited (the Company) set out on pages 18 to 53, which comprise the separate statement of financial position as at 29 February 2020, and the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Adcorp Holdings Limited as at 29 February 2020, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company 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 with 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.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Key judgements applied in the Going Concern assessment	
The global impact of COVID-19 has resulted in an unprecedented increased level of economic uncertainty. This uncertainty has an impact on the outlook of the future cash flows of the Company. Assessing the impact of COVID-19 on the appropriateness of the going concern assumption and the forecasts used for the preparation of the financial statements required considerable focus and time by both the Directors and auditors. This has resulted in a key audit matter in concluding that there is no material uncertainty related to going concern. In addition to COVID-19, the existing long-term debt facility for the South Africa operations matures in November 2020 and this facility has been disclosed as a current liability. As of 29 February 2020 there was a breach of covenants in relating to the South African Facility as disclosed in note 12 of the financial statements. Subsequent to year end the Company has negotiated a new R850 million funding facility for the South African Operations with the current lenders. Repayments of capital are R150 million on 28 February 2021, R300 million on 1 July 2021, and final repayment of R400 million on 31 May 2022. The Directors have considered whether developments subsequent to the reporting date have any implications on the adoption of the going concern assumption through evaluating the impact on the Company's capital and liquidity position. As stated in note 28, the Directors have concluded that the going concern basis of accounting is appropriate and in reaching their conclusions, they have taken into consideration all of the latest information, including new assumptions and judgements about forward-looking economic scenarios including the selling off of non-core assets. The Directors are confident that the new funding facility, along with the implemented cash preservation measures taken to date, provide the Company with sufficient liquidity to successfully navigate through the current uncertainty. The judgements applied with respect to the Directors reaching their going concern conclusion are disclosed in note 28 of the separate financial statements.	We reassessed the risk assessment on going concern and took into account the additional considerations of the impact of COVID-19 on the Company when assessing the future cash flow and judgements applied in reaching the going concern conclusion. In evaluating the Directors' judgements in determining whether there are any material uncertainties which may cast doubt on the Company's ability to continue as a going concern, the following procedures were performed: • Testing the design and implementation of controls around the going concern assessment and the judgements applied; • Assessing the operational disruptions COVID-19 and the lockdown created in the various jurisdictions in which the subsidiaries of the Company operate and to the subsidiaries of the Company's business, and understanding the actions taken by management and the Directors to mitigate the impact of the COVID-19 pandemic and lockdown to date; • Reviewing the Directors' revised cash flow forecasts for the next 12 months from the date of approval of these financial statements and critically challenging the key inputs into these forecasts, including the following: • Value and availability of financing facilities; - Reasonability of the projected monthly revenue and monthly cash collections of the subsidiaries of the Company - Reasonability of cost-saving initiatives being proposed; - Reasonability and approval for the sale of the businesses; - Assessing future-looking covenants and impact of any potential breaches; - Challenging the reasonableness of the scenarios identified and key assumptions used by management in determining the impact of the COVID-19 pandemic on going concern; - Performing sensitivity analysis by assessing the impact on the headroom of the available banking facilities under various scenarios; and - In evaluating the appropriateness of future cash flows we involved specialists from our financial advisory services team. • Inspecting the new, signed Facility for R850 million effective at 1 July 2020; • Leveraging the expertise and guidance of our IFRS accounting and local and global COVID-19 specialist teams on the going concern of the components of the Company and the Group; and • Assessing the related disclosure related to going concern in the financial statements. Based on the procedures performed, we concur with the Directors' judgement applied to conclude on the Company's ability to continue as a going concern and that no material uncertainty related to going concern exists. We consider the disclosures in note 28 to the separate financial statements to be appropriate.

Independent auditor's report continued

Key Audit Matter	How the matter was addressed in the audit
Impairment assessments of investments in subsidiaries	
Investments in subsidiaries (R806 million) comprise 26% of the total assets of the company. The company has recognised these assets in the separate statement of financial position. As required by IAS 36 <i>Impairment of Assets</i> ("IAS 36"), the Directors conduct impairment tests to assess the recoverability of the carrying value of investments as a result of reduced profitability of the group which was identified as an impairment indicator. This is performed using the discounted cash flow ("DCF") model and Net asset value ("NAV") model. As disclosed in note 4 of the separate financial statements, there are a number of key sensitive judgements made in determining the inputs into these models. The carrying amount of the investments in subsidiaries as at 29 February 2020 is R806 million, after taking into account an impairment charge of R183 million which has been recognised in the current year and disclosed in note 4 of the separate financial statements. The key assumptions with the most significant impact on the valuation models include: • Growth rates applied to revenue, operating profits and Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA). The growth rates are highly subjective since they are based on the Directors' experience and expectations rather than observable market data; • Terminal growth rates applied to the valuation models; and • The discount rates applied to the projected future cash flows. The discount rate is subjective and the calculation is complex. The impairment assessment of investments in subsidiaries is considered to be a key audit matter as a result of judgement required to be applied by the Directors. The Directors concluded that events due to COVID-19 pandemic are a non-adjusting subsequent events. The most significant impact of this assessment is that all assets and liabilities are measured based on information as at 29 February 2020.	We concurred with the Directors determination that events due to COVID-19 pandemic are non-adjusting subsequent events. We focused our testing of the impairment of investment in subsidiaries on the key assumptions made by the Directors. Our audit procedures included: • Testing the design and implementation of relevant controls over the impairment assessment. • Engaging our internal specialists to assist with: - Critically evaluating whether the models used by the Directors to calculate the value in use where required of the individual investments are aligned with IAS 36; - Validating the assumptions used to calculate the discount rates and independently recalculating the discount and growth rates. • Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the investments; • Comparing the projected cash flows, including the assumptions relating to revenue, operating profit, EBITDA and terminal growth rates, and EBITDA margins, against historical performance to assess the reasonableness of the directors' projections; and • Recomputing the value in use where required of each of the investments and comparing this to carrying value at 29 February 2020 to determine the appropriateness of either no impairment being required or the adequacy of an impairment being recorded. Based on the procedures performed and information available, we found the investment in subsidiaries and subsequent impairments as well as the disclosures thereof to be appropriate.

Key Audit Matter	How the matter was addressed in the audit
Impairment assessments of intercompany loans receivable	
Amounts due by subsidiary companies (R2.2 billion) comprise 73% of the total assets of the Company. The Company has recognised these assets in the separate statement of financial position. As disclosed in note 6 of the separate financial statements the total amount outstanding that is due to the Company is R2.9 billion and the expected credit loss raised is R675 million. The assessment of the calculation of the expected credit loss both incorporates forward-looking information and it incorporates assumptions which are subjective as they are subject to both judgement and estimation by the Directors and management requiring specific audit attention. We identified the impairment intercompany loan receivables as a key audit matter as a result of the judgement required to be applied by the Directors. The Directors concluded that events due to COVID-19 pandemic are non-adjusting subsequent events. The most significant impact of this assessment is that all assets and liabilities are measured based on information as at 29 February 2020.	As part of our procedures we understood the process followed by management under the supervision of the Directors to determine the classification of its financial instruments as well as the measurement thereof and assess as to whether this is consistent with the requirements of IFRS 9: <i>Financial Instruments</i>. Our detailed procedures included: • Testing the design and implementation of relevant controls over Expected Credit Loss calculation; • Obtained management's calculations in determining the loss allowance; • Assessing and testing the assumptions used in the determination of the credit loss; and • Assessing whether the presentation and disclosures of the trade receivables balance is in accordance with the disclosure requirements of IFRS 9 allowance for trade accounts receivables to be appropriate. Based on the procedures performed the inputs into the ECL and impairment recognised are appropriate. The presentation and disclosures in respect of the intercompany loan receivable balance are consistent with the requirements of IFRS 9.

Independent auditor's report continued

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Adcorp Integrated Annual Report 2020" and "Adcorp Holdings Limited Annual Financial Statements for the year ended 29 February 2020", which includes the Directors' Report, the Report of the Audit and Risk Committee and the Company Secretary Compliance Statement as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the separate financial statements does not cover the other information and we do and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the directors are responsible for assessing the Company'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 the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor'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 these separate financial statements.

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 separate financial statements, 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit and Risk Committee 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.

We also provide the Audit and Risk Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Committee, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Adcorp Holdings Limited for 19 years.



Deloitte & Touche

Registered Auditor

Per: MLE Tshabalala

Partner

30 July 2020

5 Magwa Crescent

Midrand

South Africa

2066

Statement of financial position

as at 29 February 2020

	Notes	2020 R'000	2019 R'000
Assets			
Non-current assets			
Investments in subsidiaries	4	806 070	989 779
Investment	5	17 620	15 247
		823 690	1 005 025
Current Assets			
Amounts due by subsidiary companies	7	2 245 481	2 882 187
Trade and other receivables	6	731	1 771
Cash and cash equivalents	8	736	126 773
		2 246 948	3 010 731
Total Assets		3 070 638	4 015 756
Equity and Liabilities			
Equity			
Share capital	9	1 741 279	1 741 279
Reserves		286 712	281 692
Retained income		(825 054)	125 616
		1 202 937	2 148 587
Liabilities			
Non-current liabilities			
Short-term portion of long-term loans	12	—	650 000
Deferred taxation	13	7 650	5 090
		7 650	655 090
Current Liabilities			
Trade and other payables	14	1 863	2 890
Amounts due to subsidiary companies	15	1 088 188	1 208 461
Short-term portion of long-term loans	12	770 000	—
Current tax payable		—	728
		1 860 051	1 212 079
Total Liabilities		1 867 701	1 867 169
Total Equity and Liabilities		3 070 638	4 015 756

The accounting policies on pages 23 to 24 and the notes on pages 25 to 51 form an integral part of the annual financial statements.

Statement of profit or loss and other comprehensive income

	Notes	2020 R'000	2019 R'000
Other operating expenses		(18 105)	(16 129)
Operating loss	16	(18 105)	(16 129)
Finance income	17	77 535	103 126
Finance costs	18	(77 425)	(103 207)
Impairment of loans and investments and intercompany loans receivable	4, 6	(836 806)	(94 166)
Fair value gain on investment		2 373	2 003
Loss before taxation		(852 428)	(108 373)
Taxation	19	839	—
Loss for the year		(851 589)	(108 373)
Other comprehensive income:			
Items that will be reclassified to profit or loss:			
Exchange differences arising on the net investment of a foreign operation		6 585	29 168
Other comprehensive income for the year net of taxation		6 585	29 168
Total comprehensive loss for the year		(845 004)	(79 205)

The accounting policies on pages 23 to 24 and the notes on pages 25 to 51 form an integral part of the annual financial statements.

Statement of changes in equity

	Share capital R'000	Share premium R'000
Balance at 01 March 2018	3 170	1 738 109
Loss for the year	—	—
Other comprehensive income	—	—
Total comprehensive loss for the year	—	—
Recognition of B-BBEE and staff share-based payments	—	—
Equity settled share-based payment recorded at a subsidiary level	—	—
Balance at 01 March 2019	3 170	1 738 109
Loss for the year	—	—
Other comprehensive income	—	—
Total comprehensive loss for the year	—	—
Recognition of B-BBEE and staff share-based payments	—	—
Equity settled share-based payment recorded at a subsidiary level	—	—
Dividends	—	—
Balance at 29 February 2020	3 170	1 738 109
Notes	9	9

Total share capital R'000	Share-based payments reserve R'000	Non distributable reserve R'000	Total reserves R'000	Retained income R'000	Total equity R'000
1 741 279	136 199	119 918	256 117	204 821	2 202 217
—	—	—	—	(108 373)	(108 373)
—	—	—	—	29 168	29 168
—	—	—	—	(79 205)	(79 205)
—	7 206	—	7 206	—	7 206
—	18 369	—	18 369	—	18 369
1 741 279	161 774	119 918	281 692	125 616	2 148 587
—	—	—	—	(851 589)	(851 589)
—	—	—	—	6 585	6 585
—	—	—	—	(845 004)	(845 004)
—	7 206	—	7 206	—	7 206
—	(2 186)	—	(2 186)	—	(2 186)
—	—	—	—	(105 666)	(105 666)
1 741 279	166 794	119 918	286 712	(825 054)	1 202 937
9	10	11			

Statement of cash flows

	Notes	2020 R'000	2019 R'000
Cash flows from operating activities			
Cash (used in)/generated from operations	22	(140 592)	281 080
Finance income		77 535	103 126
Finance costs		(77 425)	(103 207)
Tax paid	20	111	(2 061)
Net cash from operating activities		(140 371)	278 938
Cash flows from financing activities			
Proceeds from loans		930 000	695 000
Repayment of loans		(810 000)	(970 000)
Dividends paid	21	(105 666)	—
Net cash from financing activities		14 334	(275 000)
Total cash movement for the year		(126 037)	3 938
Cash at the beginning of the year		126 773	122 835
Total cash at end of the year	8	736	126 773

Accounting policies

Corporate information

Adcorp Holdings Limited is a public company incorporated and domiciled in South Africa. The principle activity of the company is investment holding. Areas of activity of its subsidiaries include the rendering of services in areas of permanent recruitment and flexible staffing sectors, professional IT services, as well as the provision of business process outsourcing, training and financial services. Subsidiaries carry on business in South Africa and Australia.

1. Significant accounting policies

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, the Companies Act of South Africa and JSE Listings Requirements.

1.2 Basis of preparation

The annual financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. In all material respects, these policies have been followed by the company. They are presented in rand, which is the company's functional currency.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), SAIICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa.

The reports and statements as set out in the annual financial statements are presented to the shareholders in terms of section 61.7 of the South African Companies Act.

These accounting policies are consistent with the previous period, except for the change as set out in note 3.

Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

1.3 Level of assurance

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

1.4 IAS 21: Foreign Exchange Transactions

In preparing the annual financial statements of the company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Accounting policies continued

The applicable exchange rates during the financial year were:

	2020			2019		
	AUD	USD	AOA	AUD	USD	AOA
Exchange rate at the beginning of the year	9.99	14.08	0.0458	9.17	11.80	0.0546
Exchange rate at the end of the year	10.16	15.61	0.0314	9.99	14.08	0.0458
Average exchange rate during the year	10.01	14.57	0.0378	9.94	12.96	0.0495

1.5 IFRS 9: Financial Instruments

IFRS 9 is built on a logical, single classification and measurement approach for financial instruments that reflect the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss (ECL) model that results in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

At each reporting date the company measures the loss allowance for a financial instrument at an amount equal to the lifetime ECLs if the credit risk on that financial instrument has increased significantly since initial recognition. The objective of the impairment requirements is to recognise lifetime ECLs for all financial instruments for which there have been significant increases in credit risk since initial recognition – whether assessed on an individual or collective basis – considering all reasonable and supportable information, including that which is forward looking.

Impairment of financial assets

Where the recoverable amount is the higher of its fair value less cost to sell and its value in use, an impairment loss is recognised in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior years. A reversal of an impairment loss is recorded in profit or loss.

Financial asset or liability

Amounts accumulated in the statement of other comprehensive income (equity) are recycled to profit or loss in the period in which the hedged item will affect the profit or loss. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, the gains or losses deferred in equity are transferred from the statement of other comprehensive income (equity) when the financial asset is sold or impaired, or the financial liability is discharged.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

The company has an investment in unlisted shares that are not traded in an active market but are classified as a financial asset and stated at fair value at the end of each reporting period.

Investments in securities are recognised on a trade date basis and are initially measured at fair value. Investments are classified as held at fair value through profit or loss, and are measured at subsequent reporting dates at fair value.

Liabilities at amortised cost

Financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or a shorter period, to the net carrying amount on initial recognition.

1.6 Tax

Deferred taxation

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.

Notes to the annual financial statements

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.

1.7 Investments in subsidiaries

All investments in subsidiaries are carried at cost.

For the purposes of impairment testing. The cost of each of the subsidiaries is compared to the value in use, and where the values in use is lower than the cost, an impairment is recognised in profit or loss. The value in use is determined at each reporting date or when an impairment indicator exists.

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	01 January 2019	The impact of the amendments is not material
Long-term Interests in Joint Ventures and Associates – Amendments to IAS 28	01 January 2019	The impact of the amendments is not material
Prepayment Features with Negative Compensation – Amendment to IFRS 9	01 January 2019	The impact of the amendments is not material
Amendments to IAS 12 <i>Income Taxes</i> : Annual Improvements to IFRS 2015 – 2017 cycle	01 January 2019	The impact of the amendments is not material
Amendments to IAS 23 <i>Borrowing Costs</i> : Annual Improvements to IFRS 2015 – 2017 cycle	01 January 2019	The impact of the amendments is not material
IFRS 23 <i>Uncertainty over Income Tax Treatments</i>	01 January 2019	The impact of the standard is set out in note 3
IFRS 16 <i>Leases</i>	01 January 2019	The impact of the amendments has no impact

Notes to the annual financial statements continued

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 March 2020 or later periods:

Standard/Interpretation:	Effective date: Years beginning on or after	Expected impact:
Amendments to References to the Conceptual Framework in IFRS Standards	01 January 2020	Unlikely there will be a material impact
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	01 January 2020	Unlikely there will be a material impact
Definition of a business – Amendments to IFRS 3	01 January 2020	Unlikely there will be a material impact
Presentation of Financial Statements: Disclosure initiative	01 January 2020	Unlikely there will be a material impact
Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	01 January 2020	Unlikely there will be a material impact
Annual Improvements to IFRS Standards 2018 – 2020	01 January 2020	Unlikely there will be a material impact

3. Changes in accounting policy

The annual financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRIC 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The company assessed whether the Interpretation had an impact on its financial statements.

Upon adoption of the Interpretation, the company considered whether it has any uncertain tax positions, particularly those relating to deductibility of related party interest. The company's tax filings include deductions related to related party interest on capital loans and the taxation authorities may challenge those tax treatments.

The Interpretation resulted in the reclassification of the projected tax impact of R838 561 from deferred tax to current tax in the annual financial statements of the company.

4. Investment in subsidiaries

Shares at cost less amounts written off:

	2020 R'000	2019 R'000
Adcorp Flexible Staffing Solutions Proprietary Limited	209	209
DAV Personnel Proprietary Limited	7 269	7 269
Employrite Proprietary Limited	41 478	41 478
Funerary Management Services Proprietary Limited	231 363	231 363
Premier Personnel Proprietary Limited	1 946	1 946
Research Surveys Proprietary Limited	6 726	6 726
Paracon SA Proprietary Limited	636 698	636 698
Paxus Holdings	284 875	284 875
	1 210 564	1 210 564
Impairment of investment in subsidiaries	(404 494)	(220 786)
	806 070	989 778
Reconciliation: Impairment of investments in subsidiaries		
Employrite Proprietary Limited	41 478	41 478
FMS Marketing Proprietary Limited	13 631	77 962
Research Surveys Proprietary Limited	6 726	6 726
Paracon SA Proprietary Limited	333 444	94 620
DAV Personnel Proprietary Limited	7 269	—
Premier Personnel Proprietary Limited	1 946	—
	404 494	220 786

Impairment of assets

An impairment exists when the carrying value of an investment or cash-generating unit to which the investment belong exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value-in-use calculation is based on a discounted cash flow (DCF) model. Impairment losses recognised in the current year were based on the value in use of the relevant cash-generating units to which the investments belong.

The cash flow inputs to the DCF were derived from the budget for the next four years and do not include restructuring activities that the management of the investee companies is not yet committed to or significant future investments that will enhance the performance of the assets of the subsidiary being tested. In certain instances, the budgets have been revised to take into account the business risks.

The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash inflows and the growth rate used for the terminal-value calculation. The key assumptions used to determine the recoverable amount for the different subsidiaries are discussed further in this note. The estimated future cash flows and discount rates used are pre-tax based on an assessment of the current risks applicable to the specific subsidiary.

The weighted average cost of capital rate is derived from taking into account market risks as well as the cost of debt. The variables used in the model are established on the basis of management judgement and current market conditions. The variables used in the model are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash-generating units.

Key estimates and assumptions

Key assumptions include the discount rate and cash flows used to determine the value in use. Future cash flows are estimated based on the most recent budgets and forecasts approved by management covering periods between three to five years and are extrapolated over the useful life of the asset to reflect the long-term plans for the company using the estimated growth rate for the specific business.

Following observable decline in business results, the Group performed the annual impairment 29 February 2020. The impairment tests resulted in total impairment of R184 million for the full year.

Notes to the annual financial statements continued

4. Investment in subsidiaries (continued)

Sensitivity analysis

The impairment calculations are most sensitive to the following assumptions:

- Growth rates applied to revenue, operating profit and EBITDA
- Discount rates
- Terminal growth rates
- Growth rates applied to revenue
- operating profits and
- earnings before interest, tax, depreciation and amortisation (EBITDA)

Anticipated earnings

Following the decline noted in the market performance of investee companies, the directors of the subsidiary companies have developed plans to return businesses to profitability. Only the plans that were committed to and given effect to at both 31 August 2019 and 29 February 2020 were given effect to in the projected earnings.

Discount rates

Discount rates represent the current market assessment of the risks specific to each subsidiary, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Adcorp Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate for each subsidiary.

DAV Personnel Proprietary Limited

The subsidiary's strategic placing in the market is being re-evaluated. In the absence of profitable trading and notable financial losses realised in the current financial year, management has decided to fully impair the investment value of the subsidiary. A full impairment loss of R7,2 million was recognised (FY2019: Rnil).

FMS Marketing Proprietary Limited

The investment in the subsidiary represents the underlying assets, liabilities and all operating activities of the CGU called Financial Services: *FMS, a division of Adcorp Support Services Proprietary Limited*. The value in use of the CGU is tested annually at a group-level in order to ensure that the goodwill associated with the CGU is valued appropriately. The goodwill impairment assessment performed on the CGU was utilised to perform the impairment assessment of the holding investment vehicle – the subsidiary. The subsidiary's performance in the financial year provided evidence of a potential reversal of impairment losses recognised in the past. Management performed an impairment test as at 29 February 2020. A four-year horizon period is used to project the sustainable cash flows. The pre-tax discount rate applied was 16,56% (FY2019: 16,56%) and cash flows beyond the four years were extrapolated using a 3% terminal growth rate (FY2019: 3%). The assessment resulted in a calculated impairment reversal of R64,3 million (FY2019: impairment loss: R1,4 million).

A change of 10% in projected earnings would result in a valuation difference of R22 million which would result in an impairment if the deviation in earnings is negative.

A change of 1% of the discount rate would result in a R20 million difference in the valuation, which would not result in an impairment if the rate increased by the 1%.

Premier Personnel Proprietary Limited

As at 29 February 2020, the subsidiary had ceased all trading activities with plans for deregistration. As a result, management has provided for the full impairment of the investment in subsidiary. An impairment loss of R1,9 million was recognised (FY2019: Rnil).

4. Investment in subsidiaries (continued)**Adcorp Workforce Management Solutions Proprietary Limited**

The financial full year financial performance of the subsidiary triggered the requirement to test for impairment. Management reviewed the valuation of the subsidiary based on the lower than expected year-on-year growth noted. The valuation is based on the projected sustainable cash flows methodology, the historical financial returns of the subsidiary were utilised and adjusted to reflect sustainable returns over the forecast period. A four year horizon period is used to project the sustainable cash flows. The pre-tax discount rate applied was 18,60% (FY2019: 16,56%) and cash flows beyond the four years were extrapolated using a 3% terminal growth rate. An impairment loss of R238,8 million was recognised (FY2019: R92,6 million).

A change of 10% in projected earnings would result in a valuation difference of R35 million, which would amount to a R21 million impairment if the deviation in earnings is negative.

A change of 1% of the discount rate would result in a R20 million difference in the valuation, which would amount to a R6 million impairment if the rate increased by the 1%.

Paxus Holdings

The investment in the subsidiary represents the underlying assets, liabilities and all operating activities of the CGU called *Australia: Paxus Holdings Pte*. The value in use of the CGU is tested annually at a group-level in order to ensure that the goodwill associated with the CGU is valued appropriately. The goodwill impairment assessment performed on the CGU was utilised to perform the impairment assessment of the holding investment vehicle – the subsidiary. Although there were no indicators of impairment for the investment held in the subsidiary, management performed an assessment for impairment. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts. A four-year horizon period is used to project the sustainable cash flows. The pre-tax discount rate applied was 12% (FY2019: 11,5%) and cash flows beyond the four years were extrapolated using a 2,5% terminal growth rate (FY2019: 2,5%). The assessment resulted in a valuation of R561 million, which did not result in an impairment.

A change of 10% in projected earnings would result in a valuation difference of R56,1 million which would not result in an impairment if the deviation in earnings is negative.

A change of 1% of the discount rate would result in a R20 million difference in the valuation, which would not result in an impairment if the rate increased by the 1%.

As a result of the impairment review, the company impaired its investments in the following companies:

	2020 R'000	2019 R'000
DAV Personnel Proprietary Limited	(7 269)	—
FMS Marketing Proprietary Limited	64 330	(1 492)
Premier Personnel Proprietary Limited	(1 946)	—
Adcorp Workforce Management Solutions Proprietary Limited	(238 823)	(92 674)
Net impairment	(183 708)	(94 166)

5. Investment

The investment represents an investment in a cell captive whereby the Group owns a special class of shares that entitles in the Group to participate in the administration, risk and economic result of the agreed insurance business introduced to the insurance company.

Guardrisk

	2020 R'000	2019 R'000
Opening balance	15 247	13 244
Fair value gain	2 373	2 003
Closing balance – carrying amount	17 620	15 247

The company has invested in a cell captive arrangement which is housed within an insurance company. Under this arrangement Adcorp is insured against future adverse events by investing in shares issued by the insurer. The insurer utilises the capital received from Adcorp to purchase a portfolio of income-generating assets. Claims initiated by Adcorp against the insurer are settled from the portfolio of assets and are typically limited to the funds available from the portfolio.

Adcorp Holdings Limited has determined that it does not have control over its insurance cell captive as the assets and liabilities are controlled by the insurer.

Notes to the annual financial statements continued

5. Investment (continued)

COVID-19 impact:

Adcorp will continue to make use of the insurance cell captive arrangement to insure itself against future adverse insurable events. The declaration of the state of disaster as a result of the COVID-19 pandemic and resulting shut-down of the South African economy in the month of March 2020, did not have any effect on the value of the investment at 29 February 2020.

On the date of reporting, the directors expect the value of the underlying income producing assets to be negatively impacted as the pandemic impacts economic growth, an estimation of the impact on the value of the assets cannot be made.

6. Amounts due by subsidiary companies

Subsidiaries

	2020 R'000	2019 R'000
Adcorp Flexible Staffing Solutions Proprietary Limited	1 251	1 251
Adcorp Fulfilment Services Proprietary Limited	741 302	731 694
Adcorp Workforce Solutions Proprietary Limited	369 650	370 804
Adcorp Staffing Solutions Proprietary Limited	458 087	458 087
Paxus Holdings	503 049	493 742
Paracon Holdings Proprietary Limited	847 511	848 887
Adcorp Support Services Proprietary Limited	7	—
Expected credit losses	(675 376)	(22 278)
	2 245 481	2 882 187
Reconciliation: Impairment of loans to subsidiaries		
Adcorp Fulfilment Services Proprietary Limited	217 284	—
Adcorp Staffing Solutions Proprietary Limited	458 092	22 278
	675 376	22 278

During the current year intragroup facilities bear interest at 8.25% (2019: 8.25%) and received interest at 4.83% (2019: 4.83%). No interest is levied on current payables and receivables.

The company has subordinated loans receivable from subsidiary companies until such time that the subsidiary company's assets fairly valued exceeds its liabilities. The subordination agreements were in favour of the following subsidiaries:

- Adcorp Staffing Solutions Proprietary Limited
- Adcorp Fulfilment Services Proprietary Limited

Loans to and from the Group companies are generally unsecured and not subject to any fixed terms of repayment.

Key estimates and judgements

The company measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition.

In determining the ECL on intercompany receivable loan accounts, management has considered:

- The financial position of the companies from which intercompany loans are recoverable. The net asset value of the company from which the loan is recoverable was used by management to determine whether the loan could be recovered in the event of the company's liquidation. A negative net asset value would increase the probability of non-recoverability in future; and
- The change in financial performance of the company where declining profitability was considered a potential sign of decreased ability to make payment on receivable balances in future.

Management has assessed that there has been a significant increase in credit risk associated with the intercompany loan accounts between the 2019 and 2020 financial years. A significant contributor to this increased credit risk is the Adcorp Group of companies significantly diminished financial performance in the year ended 29 February 2020. The Group's financial performance contributed significantly to the assessed risk as well as having assessed credit risk, the company expects credit losses of R675.4 million (2019: R22.3 million).

The assessed risk resulted in the recognition of expected credit losses on the following intercompany receivables:

6. Amounts due by subsidiary companies (continued)**Adcorp Fulfilment Services Proprietary Limited**

The financial position of the company deteriorated significantly between the financial years ending February 2019 and 2020. Management recognised expected credit losses on this loan receivable to the extent that it would return the company to a zero net asset value (to the extent currently unrecoverable). An expected credit loss of R217 million has been provided for on the loan receivable, due to the elevated credit risk arising from the negative net asset value of the company.

Adcorp Staffing Solutions Proprietary Limited

Staff-U-Need is the single operating division of the subsidiary. The division realised significant financial losses in the financial year ending 29 February 2020 and as a result, the directors of the Adcorp Group of companies impaired the Goodwill associated with the division in full (R79 million). The write down of the Goodwill in the division and the financial losses realised by the division resulted in a negative net asset value of the company. Management recognised expected credit losses on this loan receivable to the extent that it would return the company to a zero net asset value (to the extent currently unrecoverable). An expected credit loss of R458 million has been provided for on the loan receivable, due to the elevated credit risk arising from the negative net asset value of the company.

7. Trade and other receivables

	2020 R'000	2019 R'000
Financial instruments:		
Interest accrued	91	892
Other receivables	121	121
Non-financial instruments:		
Prepayments	19	258
Deposits	500	500
Total trade and other receivables	731	1 771

Fair value of trade and other receivables

Due to short term nature of current receivables, their carrying amounts is considered to be the same as their fair value.

Exposure to credit risk

Trade and other receivables inherently expose the company to credit risk, being the risk that the company will incur financial loss if customers fail to make payments as they fall due.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 *Financial Instruments*, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation.

The company measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. Forward-looking information available does not indicate impairment of receivables. Furthermore, there have been no defaults experienced in the past. As a result, the expected credit losses recognised on outstanding trade and other receivables amounts to Rnil (2019: Rnil).

The company has considered the fact that no material write-offs have been made on other receivables in the past and has raised no expected credit loss on these assets.

Notes to the annual financial statements continued

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020 R'000	2019 R'000
Bank balances	736	126 773

Facilities

The Group had the following intra-day facility as at 29 February 2020. The facility is non-interest-bearing.

	2020 R'000	2019 R'000
Facility		
First National Bank	100 000	100 000
These facilities are repayable on demand, bear interest at rates linked to the prime overdraft rate. Security for these facilities are linked to the agreements concluded with the above banking institutions, as described fully in note 12.		
Total facilities available		
South Africa	1 150 000	1 150 000
Australia	355 655	407 657
	1 505 655	1 557 657
Total facilities used		
South Africa	770 000	650 000
Australia	231 684	235 302
	1 001 684	885 302
Available facilities		
South Africa		
Revolving credit facility	230 000	350 000
Accordian credit facility	150 000	150 000
Australia	123 971	172 355
	503 971	672 355

Disclosures on utilised cash facilities are provided for in note 12.

Trade receivables are used as security to secure funding relating to the revolving loan facilities. According to the facilities term sheet, the eligible receivables are defined as those with outstanding invoices aged up to 90 days. Under the terms agreed to, the Group is restricted from invoice discounting and any other factoring arrangements on the eligible receivables. The unutilised portion of the interest-bearing facilities are disclosed in note 12.

Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

9. Share capital

	2020 R'000	2019 R'000
Authorised		
183 177 151 ordinary shares of 2.5 cents each (2019: 183 177 151)	4 579	4 579
16 822 849 "B" ordinary shares of 2.5 cents each (2019: 16 822 849)	421	421
Closing balance	5 000	5 000
Issued		
109 954 675 ordinary shares of 2.5 cents each (2019: 109 954 675)	2 749	2 749
16 822 849 "B" ordinary shares of 2.5 cents each (2019: 16 822 849)	421	421
Share premium	1 738 109	1 738 109
Closing balance	1 741 279	1 741 279

10. Share-based payment reserve

Accounting policy

Share-based payment schemes are all settled by providing shares of the company to recipients. The company accounts for all share-based payments as equity-settled.

Equity-settled share-based payment transactions are measured at the fair value of the equity instruments granted. The fair value is measured at the grant date. IFRS 2 defines the grant date as the date at which the entity and another party agree to a share-based payment arrangement, being when the entity and counterparty have a shared understanding of the terms and conditions of the arrangement.

A reconciliation of the share-based payment reserve (per share) is provided below:

	2020 R'000	2019 R'000
Share-based payment reserve		
Opening balance	161 774	136 199
Senior management long-term incentive scheme	18 369	—
Adcorp employee benefit trust and B-BBEE shareholders' trust	143 405	136 199
Expense charge arising from equity-settled share-based schemes	5 020	25 575
Senior management long-term incentive scheme	(2 186)	18 369
Adcorp employee benefit trust and B-BBEE shareholders' trust	7 206	7 206
Closing balance	166 794	161 774
Senior management long-term incentive scheme	16 183	18 369
Adcorp employee benefit trust and B-BBEE shareholders' trust	150 611	143 405

The full expense recognised for share-based payment transactions, for both the management long-term incentive scheme and the Adcorp Employee Benefit Trust and B-BBEE Shareholders' interest, arise from equity-settled share-based payment schemes.

Key estimated and judgements

The assessed fair value at grant date of options granted during the 29 February 2020 financial year is disclosed below. The fair value of the Share Appreciation Rights at grant date are independently determined using a binomial model. Retention Shares and the Performance Shares at grant date are independently determined present value of future expected dividends discounted at a risk-free rate. The valuation model takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price of volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

Senior management long-term incentive scheme

Adcorp awards shares under the scheme as part of their retention and to align management remuneration with the achievement of short- and long-term strategic and financial performance targets.

The plan includes three types of awards:

- Performance Shares (PS): a conditional right to Adcorp shares, the vesting of which is subject to the fulfilment of service conditions as well as performance conditions. As specified in the award letter, participants will not be entitled to dividends or having any voting rights on the Performance Shares until the awards vest. Vesting periods are three years from date of award.
- Retention Shares (RS): these are similar to PS but are not conditional on performance of Adcorp.
- Share Appreciation Rights (SARs): a conditional right that entitles participants to such number of Adcorp shares that are equal to the growth in the Adcorp share price above the allocation price, calculated on the exercise date. Once vested, participants will be entitled to exercise SARs up to the sixth anniversary of the allocation date (the maximum period).

Notes to the annual financial statements continued

10. Share-based payment reserve (continued)

Senior management long-term incentive scheme (continued)

The following reconciles the outstanding share options granted under the senior management long-term incentive scheme at the end of the financial year:

	2020		2019	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Senior management long-term incentive scheme				
Outstanding at the beginning of the year	5 479 735	14.47	4 238 599	16.00
Granted during the year	1 384 412	23.93	1 781 136	18.10
Exercised during the year	—	—	(540 000)	20.00
Forfeited during the year	(4 906 488)	14.96	—	—
Outstanding at the end of the year	1 957 659	20.15	5 479 735	16.30

Senior management long-term incentive scheme (continued)

The following options were issued under the senior management long-term incentive scheme in the current and prior financial years:

	Number still in issue	Grant date	Vesting date	Expiry date	Type	Fair value at grant date
Issued in FY2018	241 000	2018/02/02	2021/02/02	2024/02/02	PS	17.99
Issued in FY2018	209 650	2018/02/02	2021/02/02	2024/02/02	RS	17.99
Issued in FY2019	83 519	2018/05/18	2021/05/18	2024/05/18	PS	17.03
Issued in FY2019	590 193	2018/06/21	2021/06/20	2024/06/20	PS	17.16
Issued in FY2019	32 592	2019/01/22	2022/06/20	2025/06/20	PS	19.27
Issued in FY2020	800 705	2019/05/28	2022/03/01	2022/06/01	PS	23.93
	1 957 659					

The fair value of the Share Appreciation Rights at grant date are independently determined using a binomial model.

Retention Shares and the Performance Shares at grant date are independently determined based on present value of future expected dividends at a risk-free rate.

The inputs to the model determining the fair value of the options at grant date are set out below:

Inputs	2020	2019
Weighted average share price (R)	R17.99 – R24.94	R18.10 – R20.25
Expected volatility (%)	—	—
Expected life (years)	34.1% – 42.3%	36.1% – 42.4%
Risk-free rate (%)	6.95% – 7.76%	7.76%
Expected dividend yield (%)	0% – 2.44%	0.00%

10. Share-based payment reserve (continued)**Adcorp Employee Benefit Trust and B-BBEE shareholders' interest**

In terms of the BEE transaction in FY2013 (2013 B-BBEE transaction), Adcorp has created and issued a total of 16 822 849 "B" ordinary shares (FY2019: 16 822 849) to its empowerment shareholders at a par value of 2.5 cents per share:

- 6 729 140 (FY2019: 6 729 140) are owned by a trust called the Adcorp Employee Benefit Trust 2 (AEBT2).
- 5 887 997 (FY2019: 5 887 997) participation has been allocated to women's empowerment group, WIPHOLD.
- 4 205 712 (FY2019: 4 205 712) participation has been allocated to an empowerment business, Simeka Group. At the end of ten years, the "B" ordinary shares convert into Adcorp ordinary shares based on the value of the notional debt that is paid down at that time.

Issued	2020	2019
"B" class shares in Adcorp Holdings 16 822 849 ordinary shares of 2.5 cents per share (FY2019: 16 882 849)	421	421
"A" class shares in subsidiaries 400 "A" ordinary shares of no par value in Quest Staffing Solutions Proprietary Limited (FY2019: 400)	25	25
"A" class shares in subsidiaries 450 "A" ordinary shares of no par value in Fortress Administration Proprietary Limited (FY2019: 450)	230	230
	676	676

In respect of the 2013 B-BBEE deal, the fair value of the cancelled options and new options issued on date of modification were calculated using the Black Scholes option-pricing model. The inputs to the model are set out below:

	2014
Weighted average share price (R)	34.86
Weighted average exercise price (R)	42.17
Expected volatility (%)	24.47
Expected life (years)	10.00
Risk-free rate (%)	7.99
Expected dividend yield (%)	4.07

Using the modification cost principles under IFRS 2: *Share-based Payments*, the total modified cost of the options is R145.6 million. The total value to be amortised over the 10-year period is the aggregate of (a) 40% of the modification option cost plus (b) the unamortised option value relating to the 2007 B-BBEE deal. Details of the amounts expensed over the remaining period of the scheme are as follows:

Details of the amounts expensed over the period are as follows:

	2020 R'000	2019 R'000
One year	7 206	7 206
Two to five years	28 824	28 824
	36 030	36 030

Notes to the annual financial statements continued

10. Share-based payment reserve (continued)

Adcorp Employee Benefit Trust and B-BBEE shareholders' interest (continued)

The following reconciles the outstanding share options granted under the Adcorp Employee Benefit Trust at the beginning and end of the financial year:

	2020		2019	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Adcorp Employee Benefit Fund Trust 2				
"B" ordinary shares				
Outstanding balance at the beginning of the year	6 729 140	42.17	6 729 140	42.17

At the commencement of the share scheme in 2013, the following parameters were used in determining the option valuation:

	2014
Weighted average share price (R)	34.86
Weighted average exercise price (R)	42.17
Expected volatility (%)	24.47
Expected life (years)	10.00
Risk-free rate (%)	7.99
Expected dividend yield (%)	4.07

11. Non-distributable reserve

	2020 R'000	2019 R'000
Unrealised profit arising on sale of BEE companies into new entity during 2004	119 918	119 918

12. Long-term loans

	2020 R'000	2019 R'000
Held at amortised cost		
Short-term portion		
Long term loans – current portion	770 000	—
Long-term portion		
Long term loans – non-current portion	—	650 000
	770 000	650 000
Split between non-current and current portions		
Non-current liabilities	—	650 000
Current liabilities	770 000	—
	770 000	650 000

In the event of a default, default interest will accrue on the facility including any unpaid amounts at the facility interest rate plus 2% from the date of default. The company applied with all payment agreements stipulated in the facility agreement in the financial year (2019: no default). Under the terms of the borrowing agreement, the company agreed to the following covenants (assessed quarterly over the period of the borrowing):

- Current ratio of at least 1:1.
- Leverage ratio of less than 2.5:1 (3:1 between 1 March 2019 and 30 November 2019).

In the event of payment default, the agreement states that a default interest will accrue on the facility including any unpaid amounts at the interest rate plus 2%. The interest rate will be retrospectively adjusted from the date that such payment default occurred and will continue until it is waived.

The company's financiers have waived the company's non-compliance with the financial covenants of its borrowing facilities (2019: full compliance with covenant requirements). The current loan facility becomes due and payable within 12 months following the end of the financial year. As a result, the company has entered into a new financing agreement with the financiers (with effect from June 2020). The new financing agreement will ensure sufficient cash flows to meet both liquidity and solvency requirements of the company within the 12 months after the reporting date. Refer to note 37 Going Concern for additional information regarding the terms and the nature of the agreement concluded after the reporting date.

12. Long-term loans (continued)

The Group's financiers have waived the Group's non-compliance with the financial covenants of its borrowing facilities (2019: full compliance with covenant requirements). The current loan facility becomes due and payable within 12 months following the end of the financial year. As a result, the Group has entered into a new financing agreement with the financiers (with effect from June 2020). The new financing agreement will ensure sufficient cash flows to meet both liquidity and solvency requirements of the Group within the 12 months after the reporting date. Refer to note 28 Going Concern for additional information regarding the terms and nature of the agreement concluded after the reporting date.

	2020 R'000	2019 R'000
Available facilities utilisation		
Loans – opening balance	650 000	925 000
Repayments	(810 000)	(970 000)
Proceeds from facilities	930 000	695 000
	770 000	650 000

Under the terms of the borrowing agreement, the company agreed to the following covenants (assessed quarterly over the period of the borrowing):

- Current ratio of at least 1:1
- Leverage ratio of less than 2.5:1 (3:1 between 1 March 2019 and 30 November 2019)

Details of movement

Loans	Interest rate	Maturity	2020 R'000	2019 R'000
Amortising revolving loan	JIBAR + 340	Six equal instalments on the last of each of the five months prior to 30 November 2020	200 000	200 000
Amortising term loan	JIBAR + 340	Equal semi-annual instalments due August	570 000	450 000
			770 000	650 000

Security

As security for the South Africa loan facility granted to Adcorp Holdings, a shared security agreement was entered into that holds a cession over the trade receivables between the following operating subsidiaries of the Adcorp Group:

- All About Project Management Proprietary Limited
- Adcorp Staffing Solutions Proprietary Limited
- Adcorp Fulfilment Services Proprietary Limited
- Adcorp Management Services Proprietary Limited
- Adcorp Support Services Proprietary Limited
- Quest Staffing Solutions Proprietary Limited
- Paracon SA Proprietary Limited
- Mondial IT Solutions Proprietary Limited
- Production Management Institute of Southern Africa Proprietary Limited
- Adcorp Workforce Solutions Proprietary Limited
- Adcorp Workforce Management Solutions Proprietary Limited
- Comsel Eighteen Proprietary Limited
- TalentCru Proprietary Limited
- Torque Technical Computer Training Proprietary Limited
- Adcorp Contracting Proprietary Limited
- Adcorp Technical Training Proprietary Limited
- Adfusion Contract Management Services Proprietary Limited
- Adcorp Advantage Proprietary Limited
- M Squared Consulting MSP Proprietary Limited
- Zest Hospitality Proprietary Limited
- Fortress Administration Proprietary Limited
- Kelly Corporate Finance Proprietary Limited
- AllAboutXpert Proprietary Limited
- Innstaff Proprietary Limited

Notes to the annual financial statements continued

13. Deferred taxation

	2020 R'000	2019 R'000
Deferred tax liability		
Deferred tax on fair value adjustment of foreign loan	(7 650)	(5 090)
Deferred tax asset	(7 650)	(5 090)
Reconciliation of deferred tax liability		
At beginning of year	(5 090)	6 253
Fair value adjustment on foreign loan	(2 560)	(11 343)
	(7 650)	(5 090)

14. Trade and other payables

	2020 R'000	2019 R'000
Financial instruments:		
Accruals	1 863	2 890

Average credit period on trade and other payables is 30 days (2019: 30 days).

No interest is incurred on trade and other payables unless payment is not affected timeously.

15. Amounts due to subsidiary companies

	2020 R'000	2019 R'000
Subsidiaries		
Adcorp Management Services Proprietary Limited	1 054 241	1 177 872
Quest Staffing Solutions Proprietary Limited	2 574	—
Research Surveys Proprietary Limited	17 867	17 867
Capital Outsourcing Group Proprietary Limited – Africa	12 722	12 722
Adcorp Contracting Proprietary Limited	309	—
TalentCru Proprietary Limited	475	—
	1 088 188	1 208 461

During the current year intragroup facilities bear interest at 8.25% (2019: 8.25%) and received interest at 4.83% (2019: 4.83%). No interest is levied on current payables and receivables.

Loans to and from the Group companies are generally unsecured and not subject to any fixed terms of repayment.

Split between non-current and current portions

	2020 R'000	2019 R'000
Current liabilities	1 088 188	1 208 461

Fair value of amounts due to subsidiaries

The fair value of Group loans payable approximates their carrying amounts.

16. Operating loss

	2020 R'000	2019 R'000
Operating loss for the year is stated after charging (crediting) for the following, among others:		
Auditor's remuneration – external		
Audit fees	434	403
Other consultation services	—	24
	434	427
Remuneration, other than to employees		
Administrative and managerial services	—	218
Consulting and professional services	433	408
Share-based payments expense	7 206	7 206
	7 639	7 832
Other		
Board fees	6 114	5 999
Administration costs	2 174	1 673
Computer expenses	1 128	—
Other expenses	616	198
Total	18 105	16 129

17. Finance income

	2020 R'000	2019 R'000
Investments in financial assets:		
Bank and other cash	10 373	14 514
Other interest received	161	—
Loans to Group companies:		
Subsidiaries	67 001	88 612
Total interest income	77 535	103 126

18. Finance costs

	2020 R'000	2019 R'000
Group treasury loans	—	14 508
Long-term loans	77 381	88 612
Bank overdraft	44	87
Total finance costs	77 425	103 207

Notes to the annual financial statements continued

19. Taxation

	2020 R'000	2019 R'000
Current		
Local income tax – current period	(839)	—
Income tax recognised in other comprehensive income		
Exchange differences of net investment of foreign operations	(2 560)	(11 343)
Reconciliation of the tax expense		
Reconciliation between loss before taxation and tax expense.		
Loss before taxation	(852 428)	(108 373)
Tax at the applicable tax rate of 28% (2019: 28%)	(238 680)	(30 344)
Tax effect of adjustments on taxable income		
Non-deductible expenses	4 981	28 930
Share-based payments	—	2 018
Other permanent differences	233 699	(604)
Prior year under provision	(839)	—
	(839)	—

When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:

- judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and rates applying paragraph 122 of IAS 1 *Presentation of Financial Statements*, and
- information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125 to 129 of IAS 1.

If an entity concludes it is probable that a taxation authority will accept an uncertain tax treatment, the entity shall determine whether to disclose the potential effect of the uncertainty as a tax-related contingency applying paragraph 88 of IAS 12.

The company considered whether it has any uncertain tax positions, particularly those relating to deductibility of related party interest. The company's tax filings include deductions related to related party interest on capital loans and the taxation authorities may challenge those tax treatments. The Interpretation resulted in the reclassification of the projected tax impact of R838 561 from deferred tax to current tax in the consolidated financial statements of the company.

20. Tax paid

	2020 R'000	2019 R'000
Balance at beginning of the year	(728)	(2 789)
Current tax for the year recognised in profit or loss	839	—
Balance at end of the year	—	728
	111	(2 061)

21. Dividends paid

	2020 R'000	2019 R'000
Dividends	(105 666)	—

During the year one of the company's subsidiaries in Australia paid dividends to its minority shareholders. Dividends paid relate to the dividend declaration in FY2019 and was paid out to registered shareholders on 19 August 2019.

22. Cash generated from operations

	2020 R'000	2019 R'000
Loss before taxation	(852 428)	(108 373)
Adjustments for:		
Impairment of loans	836 810	94 166
Fair value gain	(2 373)	(2 003)
Finance income	(77 535)	(103 126)
Finance costs	77 425	103 207
Share-based payment expenses	7 206	7 206
Changes in working capital:		
Decrease/(increase) in trade and other receivables	1 040	(222)
Decrease in trade and other payables	(1 026)	(1 353)
Movement in intercompany accounts	(129 711)	291 578
	(140 592)	281 080
The movement in the intercompany accounts is adjusted for the impact of non-cash movements relating to:		
Foreign exchange difference relating to translation of foreign operation	9 142	40 512
Share-based payment scheme at subsidiary recognised in equity	(2 186)	18 369
Intercompany balances	(136 667)	232 697
Net movement in intercompany accounts	(129 711)	291 578

23. Related parties

Relationships

Subsidiaries Refer to note 4

Refer to notes 6 and 15 for details regarding related parties balances.

	2020 R'000	2019 R'000
Related party transactions		
Interest paid to (received from) related parties		
Group treasury loans	—	14 508
Subsidiaries	(67 001)	(88 612)

24. Directors' and prescribed officers' emoluments**Executive****2020**

	Salary R'000	Employee benefits R'000	Separation cost R'000	Notice and leave pay R'000	Total R'000
CJ Kujenga (resigned 31 May 2020)	3 695	381	1 241	—	5 317
I Dutiro (resigned 8 October 2019)	3 404	680	11 661	2 237	17 982
	7 099	1 061	12 902	2 237	23 299

2019

	Salary R'000	Bonus R'000	Employee benefits R'000	Total R'000
CJ Kujenga	3 209	2 101	351	5 661
I Dutiro	4 846	5 575	957	11 378
	8 055	7 676	1 308	17 039

Notes to the annual financial statements continued

24. Directors' and prescribed officers' emoluments (continued)

Prescribed officers

2020

	Salary R'000	Bonus R'000	Employee benefits R'000	Total R'000
R de Grooth	2 201	1 216	211	3 628
K Vittee	1 708	—	193	1 901
U Fear*	1 967	—	278	2 245
T Sadik**	981	—	—	981
T Fowler	2 199	1 397	193	3 789
	9 056	2 613	875	12 544

* U Fear resigned on 31 May 2020

** T Sadik resigned 30 April 2020

2019

	Salary R'000	Bonus R'000	Employee benefits R'000	Realised gains on exercise of options R'000	Total R'000
M Jurgens*	5 604	—	202	105	5 911
R de Grooth	1 838	1 233	550	35	3 656
K Vittee	2 364	998	350	105	3 817
U Fear**	165	500	18	—	683
H Weyers	1 061	210	264	—	1 535
	11 032	2 941	1 384	245	15 602

* M Jurgens resigned on 1 February 2019

** U Fear was appointed Managing Executive: Training on 1 January 2019. She received a R500 000 sign-on bonus

24. Directors' and prescribed officers' emoluments (continued)

2020	R'000
GT Serobe	927
P Mnganga	361
GP Dingaan	406
SN Mabaso-Koyana	1 059
C Maswanganyi	349
TP Moeketsi (resigned 06 June 2019)	184
ME Mthunzi (resigned 06 June 2019)	99
FS Mufamadi	368
MN Nkosi (appointed 06 June 2019, previously an alternate director)	455
H Singh	607
S Sithole	441
MW Spicer	636
R van Dijk (appointed 06 June 2019)	355
C Smith (appointed 10 January 2020)	295
	6 542
2019	R'000
GT Serobe	1 071
JB Boggenpoel (resigned 20 July 2018)	145
GP Dingaan	366
SN Mabaso-Koyana	640
C Maswanganyi	397
TP Moeketsi	282
ME Mthunzi	354
FS Mufamadi	400
P Mnganga (appointed 6 September 2018)	203
H Singh (appointed 6 September 2018)	250
S Sithole	425
MW Spicer	580
	5 113

Notes to the annual financial statements continued**24. Directors' and prescribed officers' emoluments** (continued)**Directors' shareholding as at 29 February 2020**

Executive directors	Number of unexercised options as at 28 February 2019	Number of options granted	Number of options exercised	Number of options forfeited	Number of unexercised options at 29 February 2020	Vesting date
I Dutiro	316 698	—	—	(316 698)	— [#]	20/06/2021
	930 533	—	—	(930 533)	— [*]	02/02/2021
	500 000	—	—	(500 000)	— ^{**}	02/02/2021
	500 000	—	—	(500 000)	— ^{**}	02/02/2022
	—	272 080	—	(272 080)	— [#]	01/03/2022
	500 000	—	—	(500 000)	— [#]	02/02/2023
CJ Kujenga	116 568	—	—	—	116 568 [*]	20/06/2021
	241 000	—	—	—	241 000 [#]	02/02/2021
	—	125 182	—	—	125 182 [#]	01/03/2022

Prescribed officers	Number of unexercised options as at 29 February 2019	Number of options granted	Number of options exercised	Number of options forfeited	Number of unexercised options at 28 February 2020	Vesting date
R de Grooth	35 000	—	—	—	35 000 [#]	01/03/2020
	68 671	—	—	—	68 671 [#]	20/06/2021
	—	76 135	—	—	76 135 [#]	01/03/2022
K Vittee	139 650	—	—	—	139 650 [#]	01/03/2020
	74 132	—	—	—	74 132 [#]	20/06/2021
	—	62 262	—	—	62 262 [#]	01/03/2022
H Weyers	36 478	—	—	—	36 478 [#]	20/06/2021
	—	20 114	—	—	20 114 [#]	01/03/2022
T Fowler	—	64 779	—	—	64 779 [#]	20/06/2022
	—	52 751	—	—	52 751 [#]	01/03/2022
U Fear	—	48 899	—	—	48 899 [#]	01/03/2022

[#] Performance shares.^{*} Sign-on-shares.^{**} Share appreciation rights (SARs). Vesting in three equal tranches 2021; 2022; 2023.

The share appreciation rights have a strike price of R17.67.

CJ Kujenga resigned on 31 May 2020 and forfeits rights to all shares in the long-term incentive scheme.

U Fear resigned on 31 May 2020 and forfeits rights to all shares in the long-term incentive scheme.

24. Directors' and prescribed officers' emoluments (continued)**Schedule of directors' interests – Adcorp Holdings Limited (number of shares)**

Directors' names	Direct 2020	Indirect 2020	Total 2020	Direct 2019	Indirect 2019	Total 2019
I Dutiro (resigned 8 October 2019)	6 330	—	6 330	18 000	—	18 000
CJ Kujenga (resigned 31 May 2020)	—	2 554 620	2 554 620	—	—	—
TP Moeketsi* (resigned 6 June 2019)	—	28 443 256	28 443 256	—	25 355 569	25 355 569
S Sithole*	—	28 443 256	28 443 256	—	25 355 569	25 355 569
MW Spicer	—	48 000	48 000	—	48 000	48 000
MM Nkosi*	—	28 443 256	28 443 256	—	25 355 569	25 355 569
MA Jurgens	—	—	—	54 628	—	54 628
RM Ramaite	—	—	—	15 000	—	15 000
	6 330	87 932 388	87 938 718	87 628	76 114 707	76 202 335
Less double counting for Value Capital Partners (VCP)	—	(56 886 512)	(56 886 512)	—	(50 711 138)	(50 711 138)
	6 330	31 045 876	31 052 206	87 628	25 403 569	25 491 197

* Interest held through VCP

25. Financial instruments and risk management**Categories of financial instruments****Categories of financial assets****2020**

	Notes	Fair value through profit or loss – Designated R'000	Financial assets at amortised cost R'000	Total R'000
Investment	5	17 620	—	17 620
Amounts due by subsidiary companies	6	—	2 245 481	2 245 481
Trade and other receivables	7	—	212	212
Cash and cash equivalents	8	—	736	736
		17 620	2 246 429	2 246 429

2019

	Notes	Fair value through profit or loss – Designated R'000	Financial assets at amortised cost R'000	Total R'000
Investment	5	15 247	—	15 247
Amounts due by subsidiary companies	6	—	2 882 187	2 882 187
Trade and other receivables	7	—	1 513	1 513
Cash and cash equivalents	8	—	126 773	126 773
		15 247	3 010 473	3 025 720

Notes to the annual financial statements continued

25. Financial instruments and risk management (continued)

Categories of financial liabilities

2020

	Notes	Financial liabilities at amortised cost R'000	Total R'000
Trade and other payables	14	1 863	1 863
Amounts due to subsidiary companies	15	1 088 188	1 088 188
Other financial liabilities at amortised cost	12	770 000	770 000
		1 860 051	1 860 051

2019

	Notes	Financial liabilities at amortised cost R'000	Total R'000
Trade and other payables	14	2 890	2 890
Amounts due to subsidiary companies	15	1 208 461	1 208 461
Other financial liabilities at amortised cost	12	650 000	650 000
		1 861 351	1 861 351

Financial risk management

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The company is exposed to credit risk on the loans to fellow subsidiaries as the loans are non-interest-bearing. The maximum exposure to credit risk is presented in the table below:

	Notes	2020			2019		
		Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000	Gross carrying amount R'000	Credit loss allowance R'000	Amortised cost/fair value R'000
Amounts due by subsidiary companies	6	2 920 857	(675 376)	2 245 481	2 904 465	(22 278)	2 882 187
Trade and other receivables	7	731	—	731	1 513	—	1 513
Cash and cash equivalents	8	736	—	736	126 773	—	126 773
		2 922 324	(675 376)	2 246 948	3 032 751	(22 278)	3 010 473

26. Fair value information

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

Financial assets/ financial liabilities	2020 R'000	2019 R'000	Valuation technique(s) and key inputs R'000	Fair value hierarchy	Significant observable input(s)	Relationship of unobservable inputs to fair value
Investment	17 620	15 247	Fair value – market valuation	Level 2	Aggregated publicly traded unit trusts at fair market value	A significant increase in the fair value of invested unit trusts would result in a significant increase in fair value

27. Commitments**Contingent liabilities and commitments**

	2020 R'000	2019 R'000
The bank has issued lease guarantees to the value of	28 250	7 250

28. Going concern

In preparing the consolidated financial statements, the directors are responsible for evaluating the company's ability to continue as a going concern and as a consequence the appropriateness of the going concern assumption in the preparation of the financial statements. The directors have assessed the economic environment, current financial position, and the company's expected cash flows for the next 12 months through to the end of June 2021.

Management considered three different scenarios when performing the going concern assessment which involved different assumptions and decision levers that could be influenced. The liquidity and solvency position has also been reviewed as part of this assessment and the impact of each scenario shows positive cash balance as a result. Details of the three different scenarios are set out under "Liquidity" below.

The South African government's intervention plan appears to be slowing the spread of COVID-19 albeit at varying levels of effectiveness across the country. There is still no clarity on the duration and manner in which the national lockdown will be lifted, however, management is of the view that the economy cannot survive another level 5 lockdown. It is therefore unlikely that the policy makers will subject the economy to this level of restriction again. It is difficult to determine the long-term impact that the lockdown will have on an already recessionary economy, however, Adcorp does have the benefit of being a supplier of critical labour into entities that are classified as essential services.

The national reaction to the COVID-19 outbreak has been less severe in Australia, however, reduced earnings are anticipated in the first half of FY2021 due to business disruptions and temporary closures. In the context of all available information, the company performed a going concern review and assessed its liquidity and solvency in line with its estimated trading performance. The assessment included certain assumptions in the Group's revenue generating entities and collections strategy, also taking into consideration the business' need to right-size the cost base irrespective of how the pandemic and related lockdown unfolds.

The Group's largest revenue generating units are expected to continue to operate through all levels of lockdown. FY2021 Q1 results reflected a monthly decrease of approximately 10% in revenue in April 2020 followed by a monthly increase of approximately 12% in May 2020 as South Africa moved from level 5 to level 4.

Management continues to monitor and respond to the COVID-19 pandemic and national lockdowns.

Notes to the annual financial statements continued

28. **Going concern** (continued)

Restructure activities

The company has implemented several initiatives to improve liquidity and operational performance in the short to medium term to ensure long-term sustainability. These initiatives are aimed at rightsizing the cost base of the entities in the Group and improving overall performance.

In order to understand the areas of business that required restructuring, management reallocated direct fixed costs to cost of sales so as to adequately track costs that each business incurs in the production of gross margin. Following the quantification of all costs incurred in the direct production of income for each business unit, a structured approach to redesigning the business around the cost of sales was carried out to focus on decreasing the fixed costs. This exercise focused mainly on the businesses in the resourcing and training segments. A reduction in costs will be achieved through the removal of unnecessary fixed costs as well as negotiating a number of costs from being fixed to variable, to allow the business to respond with agility to revenue movements related to lockdown phasing.

The restructure initiatives are to ensure our margins improve and will address the high levels of fixed costs that are allocated to our cost of sales line. Technology upgrade costs have been incurred to ensure accuracy and minimal touch points in our value chain and operational process. The slowdown in the economy due to lockdown has given the Group the opportunity to make upgrades to this process with minimal disruption to our key clients. This will allow the business to rebase and decrease fixed direct costs as well as examine some of the increase in scope for services that has occurred gradually over the years and which is not being recovered in our pricing.

Ensuring that value-added services are priced accurately and recovered is a key focus as this will directly impact the profitability and cash generation of the business. While these initiatives are still in infancy phase, FY2021 Q1 results are already showing positive results ahead of the Group's COVID-19 forecasts post-lockdown. Management will continue to track and monitor this initiative monthly against set targets.

In addition to the operational restructure initiatives, Adcorp made a number of changes to the Group executive team with the appointment of an experienced Chief Executive Officer effective 23 April 2020. A Chief Commercial Officer (CCO), from within the Group, was appointed in May 2020. The appointment of a CCO is significant as the operational mechanics and cost drivers of the Group are well understood by the appointed individual. The focus of the CCO will be closely aligned to the margin improvement strategy to ensure that the Group pricing and commercials are aligned to the overall corporate strategy and targets to ensure growth. The margin improvement project includes the removal of loss-making contracts and aligning Adcorp's different services offerings that will result in healthier margins and overall synergy for the Group.

Covenant waiver

A covenant waiver was concluded in June 2020 with the South African lenders in respect of the financial breach for the measurement period ended February 2020. As part of the debt extension and restructure, all covenants have been reset based on the current macroenvironment. Management is confident that these reset covenants will be met going forward. The Australian operations continue to meet the covenant requirements set out by the financiers in that country.

Debt extension and restructure

The Group has concluded the South African operations facility extension and restructure in June 2020. The facility has been restructured to R850 million from the previous R1,15 billion but the period has been extended to May 2022. The facility is used primarily to fund working capital requirements.

The revised terms of the facility include a reduction of the debt to R400 million by July 2021, which has been factored into the going concern analysis. There are two bullet payments expected to be made in the next 12 months:

- R150 million due in February 2021; and
- R300 million due in July 2021.

These debt reduction payments would be realised either through the disposal of non-core assets or an equity raise. The current forecast cash flow projections indicate that the first payment in February 2021 is not dependent on any corporate actions.

Over the next 12 months, cash from operations is projected to decline by R48 million; cash from investing activities will increase by R500 million and cash flows from financing activities are expected to decrease by R70 million.

While cash generated from operations is projected to decline, sufficient cash reserves are expected to be available to meet debt repayments as these fall due.

Disposal of non-core assets

Management has identified non-core assets which will be disposed of to assist with decreasing overall debt levels. The Group has commenced with the disposal process of some of these assets.

28. Going concern (continued)**Working capital management**

Days sales outstanding (DSO) has deteriorated from the prior year of 50 days to 54 days for the year ended 29 February 2020. There has, however, been an improvement from the operational team with emphasis being on the internal invoicing procedure ensuring efficient payroll and administration process. This is now also backed by a rigorous governance process that will allow for enhanced credit vetting of clients. The results of this focused approach have been seen in the positive collections experienced in FY2021 Q1 with more than 80% of the debtor's book outstanding as at 29 February 2020 being collected by the end of May 2020.

Solvency

We draw attention to the fact that at 29 February 2020, the company had a retained loss balance of R825 054 and that the company's total assets exceed its liabilities by R1 202 937. There are no events anticipated in the year ahead that indicate any risk to the company's solvency position.

Liquidity

In assessing the liquidity position, various short to medium-term cash flow forecasts were prepared, which took into consideration the restructuring initiatives, the disposal of non-core assets and the debt extension. This cash flow forecasts covered the period up until the end of June 2021. Three forecast scenarios were established using the following assumptions:

- A level 5 lockdown of three months in FY2021 (March 2020, April 2020, May 2020), with gradual increase of revenue post the three months (from June 2020) reverting to a normalised level from August/September 2020.
- A revised view based on the lockdown being relaxed by one month from the first scenario.
- A midpoint view of the two scenarios.

The forecasts indicate that the company is not overly reliant on new debt to fund the daily operations, with an average facility usage of R200 million. The cash position is monitored daily by management and the Group is comfortable with its liquidity levels.

Going concern conclusion

As disclosed in the events after the reporting period note 29, it is not possible to make an accurate and complete estimate of the full impact that the COVID-19 pandemic and the national lockdown will have on the macroeconomic environment within which the Group operates. The Board and management are committed to the restructuring initiatives and debt reduction of the Group to derisk the business and strengthen the balance sheet.

The directors are satisfied that there are no material uncertainties that cast doubt on the company's ability to operate as a going concern and that the company has sufficient resources, or access to resources, to continue with all operating activities for the foreseeable future.

Based on this assessment, the directors consider it appropriate to adopt the going concern assumption for the preparation of the 2020 financial statements.

29. Events after the reporting period**Impact of COVID-19**

COVID-19 is an unprecedented humanitarian crisis that existed at the end of Adcorp's 2020 reporting period, and on 11 March 2020, the World Health Organization declared COVID-19 as a pandemic. A National State of Disaster was declared in South Africa on 15 March 2020, followed by a nationwide lockdown taking effect from 26 March 2020. The lockdown was initially set at a duration of 21 days in South Africa, and subsequently extended indefinitely under risk-adjusted levels of economic restrictions.

Australia locked down its borders on 20 March 2020 in response to the COVID-19 pandemic. Adcorp management has concluded that the declaration of a National State of Disaster in South Africa, and the ensuing nationwide lockdowns in South Africa and Australia, in response to the COVID-19 pandemic, are non-adjusting events after reporting period. As a result, the impact of COVID-19 on the accounting standards that require the use of forward-looking information (expected credit losses, deferred tax asset and goodwill impairment) were assessed based on information available as at 29 February 2020.

As the pandemic increases in both magnitude and duration, entities are experiencing conditions often associated with a general economic downturn. This includes but is not limited to financial market volatility as well as margin erosion, credit deterioration and liquidity concerns. COVID-19 has spread rapidly, infecting millions worldwide and bringing the global economy to a near standstill as countries have imposed tight restrictions on movement to slow the rates of infection.

Notes to the annual financial statements continued

29. Events after the reporting period (continued)

Adcorp COVID-19 response plan

At the date of this report the effects of COVID-19 continue to create a situation that remains fluid and rapidly evolving impacted by inter alia continuing changes in government policy and evolving business and customer reactions thereto. These circumstances indicate that the financial impact on the business remains at significant levels. The company is therefore aware that the economic effects arising from the COVID-19 outbreak are expected to negatively impact the consolidated results of the company for the first half and full year of 2020. The continuation of these circumstances could result in a prolonged negative impact on the financial results of this company.

Adcorp management acted swiftly in response to the announcement of a National State of Disaster in South Africa and the ensuing lockdowns in South Africa and Australia. This response was primarily intended to mitigate the impact of reduced business activity resulting from the COVID-19 pandemic and lockdown. The actions included implementation of various cost saving and liquidity management interventions as well as business continuity measures to ensure that staff remained equipped to support clients in essential services. Adcorp's COVID-19 response plan also included the following cash management elements:

- Cash flow management. The Group's legal department proactively sought rental concessions with the landlords of occupied buildings. The concessions included measures to defer rental payments through the first three to six months of the national lockdown. Similar arrangements were sought with other suppliers who provide goods and services to the Group.
- Reduction of non-essential spend. The company immediately sought to reduce all non-essential expenditure that could either be deferred into the second half of the year or avoided all together.
- Salary sacrifices. The company's staffing requirements were considered in the immediate term following the announcement of the lockdown. Personnel were placed on immediate salary sacrifices ranging between 20% to 100% of their cost to company (dependent on the extent to which the personnel supported the services delivered by the Group to the essential service industry clients). The company sought government financial relief to assist affected employees.

Financial impact of COVID-19 from year end to date of this report

To date, the actual achieved revenue as well as implementation of the cost-saving and liquidity management interventions had a positive outcome when compared to the initial COVID-19 forecasts. Management have also performed a sensitivity analysis regarding the measurement of the key judgement assets to assess if there were any possible write-offs post-year-end. Based on actual experience, there were no additional write-offs of any receivables post-year-end and there has been an improvement in cash flow as a result of a focused approach on the collections process.

A preliminary assessment of the deferred tax assets recognised on tax losses, goodwill and indefinite life intangible assets indicated that there are currently no additional impairments and adjustment to these items as of the date of this report.

Operational impact of COVID-19 from year end to date of this report

Given the nature of the services the Group provides, the COVID-19 pandemic and lockdown has had a mixed impact on operations. Adcorp's Training division delivers most of its services through a "face-to-face" learning delivery model. Consequently, the training businesses were largely unable to deliver learning to clients during level 5 and level 4 of the countrywide lockdown. The businesses continue to be affected and remain closed for trading in line with the lockdown regulations governing education despite the phased re-opening of the economy. The Group (through the technology transformation project underway) had already begun to shift its training offerings to online delivery methods. Management considers this transformation project as one of the key responses to returning the segment to normal trading levels in the medium term and a key growth strategy in the long term.

However, given that client training spend is unlikely to recover significantly in FY2021 following a protracted lockdown period, the Training division will be the most affected by COVID-19. The Temporary Employment Services (TES) and Functional Outsourcing businesses provide staffing to essential services including across the retail supply chain, health care, power supply and contact centres. Charisma also provides fit-for-work medical assessments to clients, which now include temperature screening. Therefore, the Industrial Services division in South Africa has continued operating throughout all levels of lockdown, albeit at reduced capacity.

The permanent placements business initially experienced a negative shock to the lockdown as clients reacted by implementing hiring freezes, however, this segment is slowly recovering. The IT resourcing business which mainly places IT independent contractors has been largely unaffected by the lockdown due to the criticality of these skills and the ability of these professionals to work remotely.

29. Events after the reporting period (continued)**Debt extension and restructure**

The company has concluded the South African operations facility extension and restructure in June 2020. The facility has been restructured to R850 million from the previous R1,15 billion facility and the period has been extended to May 2022. Two bullet payments are required to be made by 1 July 2021 to reduce the debt to R400 million. The current assessment of future cash flows indicates that this is achievable.

Disposal of non-core assets

Management has identified non-core assets which will be disposed of to assist with decreasing overall debt levels. The Group has commenced with the disposal process for some of these assets. The directors are not aware of any other events after the reporting period that will have an impact on financial position, performance or cash flows of the Group.

In the period after 29 February 2020, but prior to the issuance of the annual financial statements, the Group's management and Board of Directors approved the sale of the Financial services division. Adcorp Financial Services is housed within Adcorp Support Services Proprietary Limited, a subsidiary of Adcorp Holdings Proprietary Limited. A programme to market the asset was launched and numerous negotiations took place with potential buyers subsequent to the reporting period. The disposal is consistent with the company's long-term strategy to focus its activities on its core capabilities and to utilise the proceeds from the sale of assets to reduce the company's gearing.

As at 29 February 2020 Financial Services did not meet the requirements of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* for disclosure purposes. The operating profit included in profit or loss for the year relating to Financial Services was R53 million.

Annexure A: Details of subsidiaries and associates

for the year ended 29 February 2020

Name of subsidiary	Nature of business/ status	Share type	Authorised share capital of subsidiary/associate	
			R Feb 2020	R Feb 2019
Investments in subsidiaries				
Adcorp Flexible Staffing Solutions Proprietary Limited	Dormant	Ordinary	20 000	20 000
DAV Professional Placement Group Proprietary Limited	Dormant	Ordinary	1 000 000	1 000 000
Adcorp Workforce Management Services Proprietary Limited	Supplier of IT services	Ordinary	1 000	1 000
Research Surveys Proprietary Limited	Dormant	Ordinary	100 000	100 000
Employrite Proprietary Limited	Dormant	Ordinary	100	100
FMS Marketing Proprietary Limited	Dormant	Ordinary	100	100
Premier Personnel Proprietary Limited	Dormant	Ordinary	100	100
Adcorp Holdings Australia	Holding company	Ordinary	30 000 100	30 000 100
Amounts due to subsidiary companies				
Adcorp Support Services Proprietary Limited	Financial services	Ordinary	1 000	1 000
Adcorp Management Services Proprietary Limited	Shared services	Ordinary	4 000	4 000
Quest Staffing Solutions Proprietary Limited	Flexible staffing	Ordinary	1 000 000	1 000 000
TalentCru Proprietary Limited	Emergent business	Ordinary	1 000 000	1 000 000
Capital Outsourced Solutions Proprietary Limited	Flexible staffing	Ordinary	1 000 000	1 000 000
Adcorp Fulfilment Services Proprietary Limited	Holding company	Ordinary	20 000	20 000
Adcorp Workforce Solutions Proprietary Limited	Flexible staffing	Ordinary	1 000 000	1 000 000
Adcorp Staffing Solutions Proprietary Limited	Holding company	Ordinary	4 000	4 000
Adcorp Contracting Proprietary Limited				
Total cost of investment held by Adcorp Holdings Limited (before impairment)				
Total indebtedness (to) the subsidiary to Adcorp Holdings Limited				
Total indebtedness by the subsidiary to Adcorp Holdings Limited				

Issued share capital of subsidiary/associate		Number of shares held by Adcorp		Cost of investment held by Adcorp Holdings Limited (before impairment)		Indebtedness (to)/by the subsidiary to Adcorp Holdings Limited		Attributable profit/(loss) before tax of the subsidiary/associate	
R Feb 2020	R Feb 2019	R Feb 2020	R Feb 2019	R Feb 2020	R Feb 2019	R Feb 2020	R Feb 2019	R Feb 2020	R Feb 2019
10 000	10 000	10 000	10 000	209	209	1 251	1 251	—	—
100 000	100 000	100 000	100 000	7 269	7 269	—	—	—	—
700	700	700	700	636 698	636 698	847 511	848 887	10 154	28 445
200	200	200	200	6 726	6 726	(17 866)	(17 867)	—	—
100	100	100	100	41 478	41 478	—	—	—	—
100	100	100	100	231 363	231 363	—	—	—	—
100	100	100	100	1 946	1 946	—	—	—	—
30 000 100	30 000 100	30 000 100	30 000 100	284 875	284 875	503 049	493 742	(115 488)	66 814
100	100	Indirect holding	Indirect holding	—	—	7	—	61 628	83 396
400	400	Indirect holding	Indirect holding	—	—	(1 054 241)	(1 177 872)	(177 849)	(76 236)
600 000	600 000	Indirect holding	Indirect holding	—	—	(2 574)	—	(32 614)	10 986
100 000	100 000	Indirect holding	Indirect holding	—	—	(475)	—	19 353	20 946
100 000	100 000	Indirect holding	Indirect holding	—	—	(12 722)	(12 722)	—	—
9 000	9 000	Indirect holding	Indirect holding	—	—	741 302	731 694	20 593	29 775
1 000 000	1 000 000	Indirect holding	Indirect holding	—	—	369 650	370 804	53 672	80 005
100	100	Indirect holding	Indirect holding	—	—	458 087	458 087	41 456	44 416
						(309)	—	3 523	1 725
						(675 376)	(22 278)		
				1 210 564	1 210 564				
						(1 088 187)	(1 208 461)		
						2 245 481	2 882 187		

Shareholder analysis

Adcorp Holdings Limited

Analysis of ordinary shareholders as at 29 February 2020

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	1 813	73.58	269 906	0.25
1 001 – 10 000	316	12.82	1 054 379	0.96
10 001 – 100 000	217	8.81	7 947 031	7.23
100 001 – 1 000 000	88	3.57	24 772 645	22.53
Over 1 000 000	30	1.22	75 910 714	69.04
Total	2 464	100.00	109 954 675	100.00

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance Companies	23	0.93	2 450 006	2.23
Close Corporations	16	0.65	161 188	0.15
Collective Investment Schemes	91	3.69	38 734 527	35.23
Control Accounts	1	0.04	108	0.00
Custodians	9	0.37	35 952	0.03
Foundations and Charitable Funds	25	1.01	575 716	0.52
Hedge Funds	3	0.12	18 521 738	16.84
Insurance Companies	6	0.24	364 459	0.33
Investment Partnerships	10	0.41	2 094 726	1.91
Managed Funds	18	0.73	1 670 741	1.52
Medical Aid Funds	10	0.41	499 685	0.45
Organs of State	4	0.16	3 044 685	2.77
Private Companies	25	1.01	683 608	0.62
Public Companies	1	0.04	7	0.00
Public Entities	2	0.08	84 824	0.08
Retail Shareholders	1 911	77.56	1 950 713	1.77
Retirement Benefit Funds	185	7.51	35 312 425	32.12
Scrip Lending	3	0.12	1 121 650	1.02
Sovereign Funds	2	0.08	52 041	0.05
Stockbrokers and Nominees	17	0.69	1 074 550	0.98
Treasury	1	0.04	556 605	0.51
Trusts	91	3.69	964 131	0.88
Unclaimed Scrip	10	0.41	590	0.00
Total	2 464	100.00	109 954 675	100.00

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	9	0.37	29 188 106	26.55
Directors and associates (direct holding)	2	0.09	36 330	0.03
Directors and associates (indirect holding)	5	0.20	26 597 156	24.18
Treasury	2	0.08	2 554 620	2.32
Public shareholders	2 455	99.63	80 766 569	73.45
Total	2 464	100.00	109 954 675	100.00

Fund managers with a holding greater than 5% of the issued shares	Number of shares	% of issued capital
Value Capital Partners	26 549 156	24.15
Allan Gray	20 577 508	18.71
Kagiso Asset Management	17 609 351	16.02
PSG Asset Management	9 464 780	8.61
Total	74 200 795	67.48

Beneficial shareholders with a holding greater than 5% of the issued shares	Number of shares	% of issued capital
H4 Collective Investments	17 842 621	16.23
Allan Gray	9 589 353	8.72
PSG	9 464 780	8.61
Sentinel Mining Industry Retirement Funds	6 361 816	5.79
Total	43 258 570	39.34

Total number of shareholdings **2 464**

Total number of shares in issue **109 954 675**

Share price performance

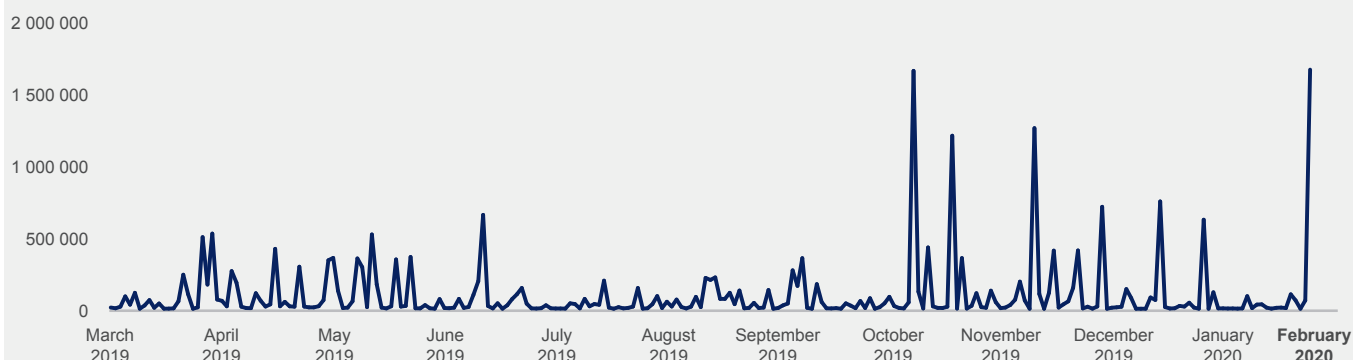
Opening price 1 March 2019	R20.00
Closing price 29 February 2020	R9.50
Closing high for period	R25.00
Closing low for period	R9.50

Number of shares in issue	109 954 675
Volume traded during period	23 563 882
Ratio of volume traded to shares issued (%)	21.43%
Rand value traded during the period	R391 809 738
Price/earnings ratio as at 29 February 2020	5.87
Earnings yield as at 29 February 2020	17.03
Dividend yield as at 29 February 2020	8.09
Market capitalisation at 29 February 2020	R1 044 569 413

Shareholder analysis continued

Adcorp price chart – 1 March 2019 to 29 February 2020

(volume)



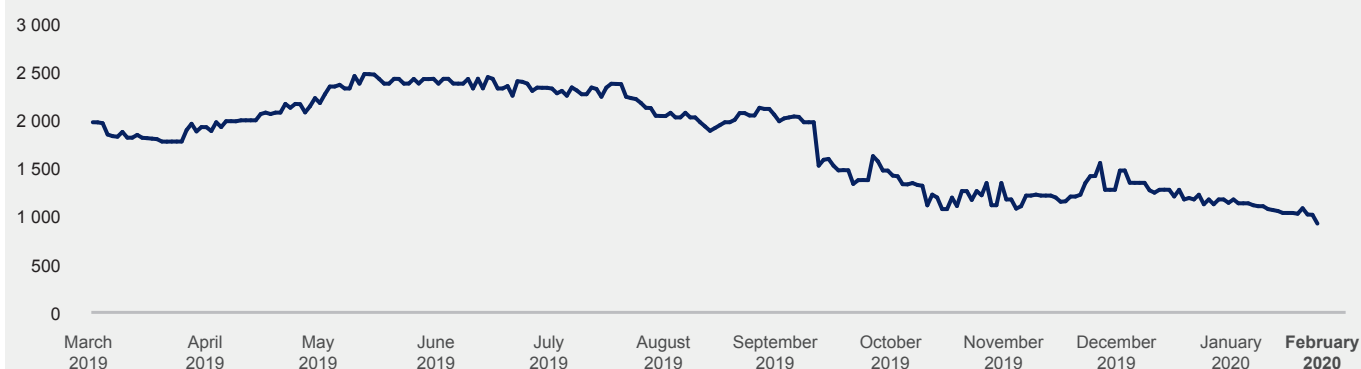
Five-year share price performance

(cents)



Adcorp price chart – daily closing price

(cents)



Contact details

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