



**adcorp**

Connecting Potential

Integrated annual report  
2020

# Contents



## Our business



See page 4  
for further information



## Leadership and accountability



See page 16  
for further information



## Value creation



See page 44  
for further information



## Annual financial statements



See page 64  
for further information



## Shareholder information



See page 152  
for further information

## INTRODUCTION

Approach to reporting	1
Reporting scope and boundary	1
Reporting standards and frameworks	2
Approach to materiality	2
Assurance	2
Board approval	3
Forward-looking statements	3

## OUR BUSINESS

Adcorp at a glance	6
Business model	8
Risks and mitigating controls	10

## LEADERSHIP AND ACCOUNTABILITY

Chairman's report	18
Executive report	20
Board of Directors	24
Effective leadership through good governance	30
Remuneration review	34
Report of the Transformation, Social and Ethics Committee	42

## VALUE CREATION

Intellectual capital	46
Human capital	47
Social and relationship capital	54
Natural capital	58
Financial capital	60

## ANNUAL FINANCIAL STATEMENTS

Directors' responsibility for the annual financial statements	66
Company Secretary compliance statement	66
Independent auditor's report	67
Report of the Audit and Risk Committee	75
Directors' report	78
Audited consolidated annual financial statements	81
Notes to the audited consolidated annual financial statements	92
Annexure A: Details of subsidiaries and associates	148

## SHAREHOLDER INFORMATION

Shareholder analysis	154
Notice of AGM	157
Form of proxy	162
Explanatory notes regarding proxy	163

## ADMINISTRATION

Glossary/abbreviations	164
Contact details	166

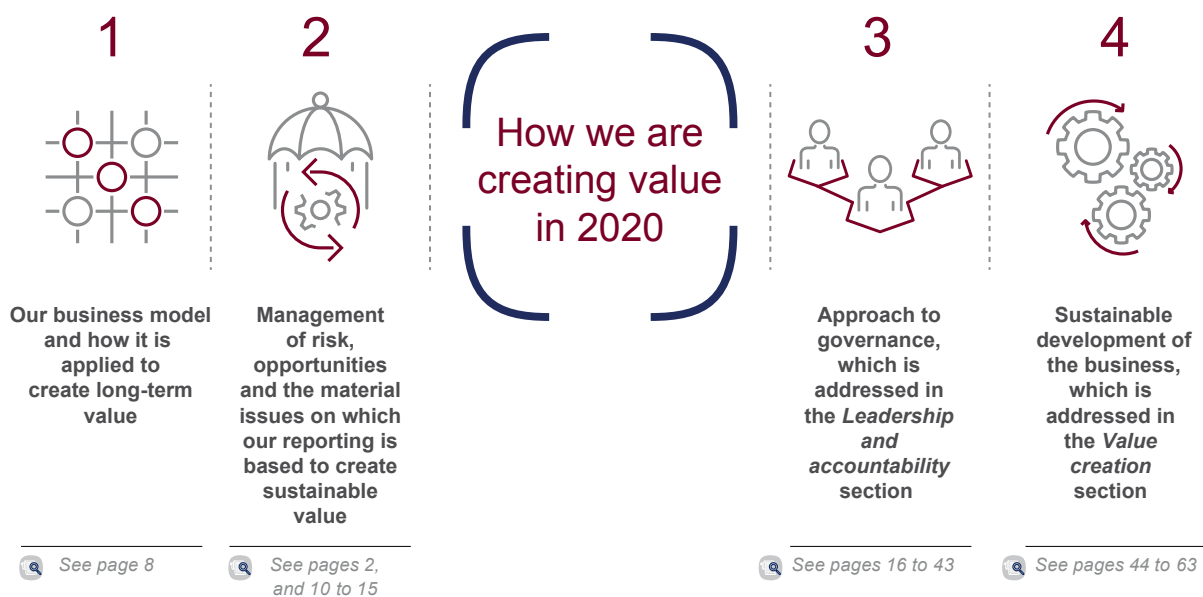
## Approach to reporting

The aim of Adcorp's annual integrated report is to provide the Group's stakeholders with information that has been identified as being of material interest. The report will provide the information needed to make an informed assessment about the Group's ability to create value over the short, medium and long term.

This report is guided by the Integrated Reporting <IR> framework and the King IV™ report. The <IR> framework sets out six capitals, which businesses may integrate as part of their reporting, being financial, manufactured, human, intellectual, natural, and social and relationship capitals. The Companies Act, the King IV™ principles and the JSE Listings Requirements form an integral part of the corporate governance framework within which the Adcorp Group operates.

Adcorp recognises that integrated reporting is a journey. To this end, the Group is committed to moving towards a more integrated approach to reporting by making incremental improvements on a year-on-year basis. In this integrated annual report, key improvements have been made to the business model, the five capitals applicable to our business and the disclosure on risk and risk mitigation.

To achieve a more integrated reporting approach, value creation is summarised as follows:



## Reporting scope and boundary

This report provides information relating to the business model, operating context, material issues, risks, opportunities, governance and operational performance of the Adcorp Group for the period 1 March 2019 to 29 February 2020. It covers the South African and the international operations, which are based mainly in Australia.

## Navigation in this report

For ease of reference and further reading, the following icons are used in the report:



Further reference in the report



Area of compliance with King IV  
Report on Corporate Governance™\*

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# Reporting standards and frameworks

Standards/codes/principles/guidelines	Level of application/compliance in our reporting
International Financial Reporting Standards (IFRS)	Complied with
International Integrated Reporting Council's (IIRC) International Reporting Framework	Guided by its principles
King Code on Corporate Governance 2016™ (King IV™)	Applied and application reported on <a href="https://www.adcorpgroup.com/corporategovernanceregister/">https://www.adcorpgroup.com/corporategovernanceregister/</a>
JSE Listings Requirements	Complied with
Companies Act 71 of 2008	Complied with
Principles of United Nations Global Compact	Applied
Labour Relations Act 66 of 1995 (LRA)	Complied with
Broad-Based Black Economic Empowerment (B-BBEE) Amended Codes of Good Practice scorecard	<a href="https://www.adcorpgroup.com/empowerdex_adcorpholdinglimited/">https://www.adcorpgroup.com/empowerdex_adcorpholdinglimited/</a>



## Approach to materiality

The aim of this report is to provide information on matters that have a material bearing on Adcorp's ability to create value. These matters are interest to current and prospective investors and other stakeholders who wish to make an informed assessment of the Group's ability to deliver value over the short, medium and long term. Material matters were established through external engagement with investors and other stakeholders as well as internal engagement with our South African and Australian employees. The Board and management followed a rigorous process to arrive at the Group's strategic objectives and identify what is required to achieve these objectives.

## Assurance

As per King IV™, a combined assurance model assists the Board in assessing the effectiveness of the internal control environment and enables the Board to assess the integrity of the information used for reporting and decision making.

Adcorp's combined assurance framework ensures the integration, coordination and alignment of risk management and assurance processes. Overseen by the Audit and Risk Committee, the framework enables an effective control environment and supports the integrity of information used for decision making by leadership.

A company is able to exercise its judgement with regard to whether the integrated annual report should be assured by an external assurance provider. As a combined assurance model is in place, Adcorp Group did not deem the use of an external assurance provider as necessary for this integrated annual report. This will be assessed in future.

## Board approval

### The Adcorp Board assumes responsibility for the integrity of this integrated annual report.

The Board has critically assessed and satisfied itself as to the assurance obtained from Adcorp's combined assurance model, which enables an effective internal control environment that supports the integrity of information used for decision making and reporting by the Board, the Board committees and management.

The Board also considered materiality for the purposes of the integrated annual report and the effect that the presence or absence of an item of information might have on the accuracy or validity of a statement in the integrated annual report, or a decision by stakeholders (see Approach to materiality on page 2 of this report).

The overall objective with this integrated annual report is to provide information that could materially impact Adcorp's ability to create value in the short, medium and long term. The Board is of the view that, to the best of its knowledge and belief, our integrated reporting addresses matters material to our stakeholders' decision making and provides a balanced view by explaining how Adcorp expects to create value over time, taking into consideration the

Group's impact on its stakeholders and the environment in which it operates.

The Board unanimously approved the integrated annual report for FY2020 on 30 July 2020.

GT Serobe (Chairman)

P Roux\* (Chief Executive Officer)

G Dingaan

S Mabaso-Koyana

C Maswanganyi

P Mnganga

S Mufamadi

M Nkosi\*

H Singh

S Sithole

C Smith\*

M Spicer

R Van Dijk\*

M Lubega\*

\* Mr P Roux has been appointed as the Chief Executive Officer with effect from 23 April 2020.

Mr C Smith has been appointed as a non-executive director with effect from 10 January 2020.

Ms R van Dijk has been appointed as an independent non-executive director with effect from 6 June 2019.

Mr M Nkosi has been appointed as a non-executive director with effect from 6 June 2019 (previously an alternate director from 19 October 2018).

Mr M Lubega has been appointed as a non-executive director with effect from 1 July 2020.

## Forward-looking statements

Certain statements in this report may constitute forward-looking statements relating to the Adcorp Group that are based on the beliefs, assumptions and information currently available to the Board.

These forward-looking statements are, by their nature, subject to significant risks and uncertainties and include, without limitation, statements relating to the Group's business prospects, future developments, trends and conditions in the industry and geographical markets in which Adcorp operates. The forward-looking statements may also contain strategies, plans, objectives and goals, the ability to control costs, statements relating to operations, margins, overall market trends, risk management and exchange rates.

Any forward-looking statements have not been reviewed or reported on by the Adcorp Group's external auditors.





# Our business

## Adcorp at a glance

### Connecting potential

Adcorp is a workplace solutions company. We search, place, develop, train and manage people for temporary and permanent job opportunities.

### Adcorp managed workforce

<b>Temporary employees</b> <b>42 140</b>	<b>Independent contractors</b> <b>3 118</b>	<b>Learnerships (South Africa)</b> <b>262</b>	<b>Total global managed workforce</b> <b>45 520</b>
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The managed workforce in South Africa comprises temporary employees (two categories – assignees and outsourced employees, independent contractors and employees placed at clients on learnership. In Australia the managed workforce comprises temporary employees and independent contractors. A detailed analysis of Adcorp's workforce is provided in the Human Capital section on pages 51 to 53.



Founding date 1975

JSE listing 1987



Adcorp office locations

### Adcorp beneficiaries

<b>Higher education learners</b> <b>385</b>	<b>People with disabilities enrolled in Academies</b> <b>65</b>	<b>High school bursaries facilitated over four years</b> <b>727</b>	<b>Adcorp employee benefit policy holders</b> <b>49 194*</b>
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\* Comprises core benefits, income protector, lifestyle benefits and employee benefits equalisation (provident fund and medical aid).



## Operating brands



### Industrial Services



### Professional Services



### Support Services



### Training Services



### Financial Services

**BLU.**

A leading temporary employment service provider within the industrial and hospitality industries. Segmental focus within the FMCG, manufacturing and logistics sectors.

**PARACON**

A leading information technology (IT) personnel resourcing brand that contractors use across IT disciplines for placement at clients on an outsourced or a permanent basis.

**KELLY**

A specialist recruitment company for middle-office, general administration and sales staff.

**PMI**

A registered private higher education institution accredited to deliver recorded progression training for employees ranging from entry-level short courses to a higher degree in production management.

**FMS**

Fulfilment services in the insurance sector for funeral repatriation and support.

**CAPability**

A registered industrial and office cleaning service provider and includes an embedded disability solution offering.

**allaboutXpert**

A bespoke business transformation consulting company that delivers project outcomes as defined by clients. A gold-certified Microsoft partner.

**Quest**

A provider of scalable recruitment and staffing solutions for frontline customer service, sales, marketing and administrative staff.

**Adcorp Technical Training**

Provides artisan training and upskilling through multiple technical disciplines in state-of-the-art technical training facilities located in Welkom and Jet Park.

**Employee benefits**

Affordable, pay-as-you-go lifestyle benefit solutions customised for the Group's temporary assignee base.

**funxion**

An end-to-end outcomes-based solution provider offering effective non-core process outsourcing and workforce management.

**talentCRU**

A talent acquisition company offering embedded Recruitment Process Outsourcing (RPO) within client environments, underpinned by human resource (HR) technology that delivers cost effectiveness and speed of execution.

**CHARISMA!**  
care2share

A niche nursing and clinical facilitation staffing provider to the private healthcare sector. Adjacency services include medical wellness screening and medical fitness assessments.

**I Can!**

South Africa's leading training solutions for people with disabilities.

**BLU.CYNERGY**

An ISO-accredited temporary employment services provider supplying artisans and semi-skilled staff in the construction, energy, engineering and mining sectors.

**2|A|V**

A specialist recruitment company in the commercial, financial, IT and telecommunications, engineering and executive recruitment industries.

**zest**  
HOSPITALITY

A managed services provider specialising in the hospitality sector.

**TORQUE IT**

A leader in the IT software training industry (in excess of 300 technologies) and South Africa's largest trainer of the Microsoft product suite.

**DARE**

A leading provider of global recruitment and contractor management services to the oil, gas and mining sectors in Australasia.

**paxus**

A leading technology and digital talent specialist with operations across Australia.

**LSA** | Labour Solutions Australia

A workforce management, labour hire solutions provider with a national network throughout Australia primarily in food processing and agriculture sectors.

**allaboutXpert**

A provider of end-to-end project, programme and portfolio management solutions that fit and enhance the project environment.

SOUTH AFRICA

AUSTRALIA

# Our business model

Adcorp believes that sustainable development should be at the core of its value creation process. The Adcorp Group recognises its responsibility to contribute to sustainable development within its operating environment and is committed to contributing to the following Sustainable Development Goals (SDGs):



## Inputs



### Intellectual capital

- Industry knowledge, systems and procedures
- Innovative workplace solutions



### Human capital

- Attract and retain top talent
- Risk management and ethical values
- Integrated employee value model



### Social and relationship capital

- Shared value creation
- Workforce wellness
- Stakeholder engagement



### Natural capital

- All renewable and non-renewable environmental resources that provide goods/services in support of our current and future prosperity



### Financial capital

- Appropriate debt/equity funding
- Optimal divisional capital structures
- Access to capital
- Integrated financial value model

## Operating segments



### Industrial Services

- Traditional temporary employment services largely in the industrial space
- Functional outsourcing business



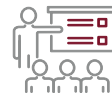
### Professional Services

- Independent contract and permanent resourcing solutions largely in the technology sector complemented by a SAP specialisation, project management, RPO, Managed Service Provider, IT training



### Support Services

- Traditional temporary employment services in the office space and nursing
- Permanent placements
- Outsourcing of front office support and contact centres



### Training Services

- Higher education
- IT training
- Disability learnerships and artisan training

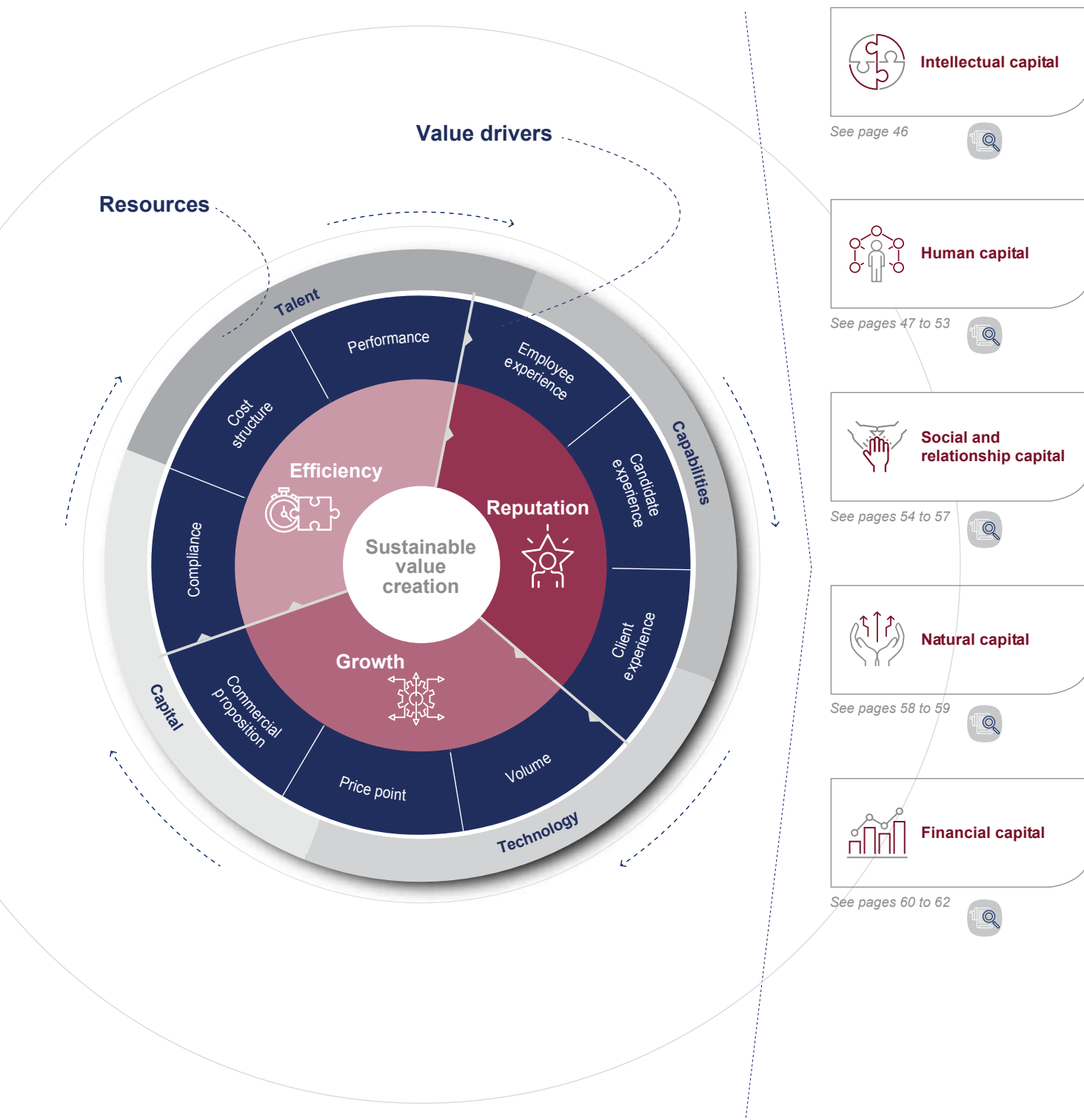


### Financial Services

- Affordable pay-as-you-go lifestyle benefit solutions customised for the Group's temporary assignee base
- Fulfilment services for the insurance sector

## Activities

## Outcomes



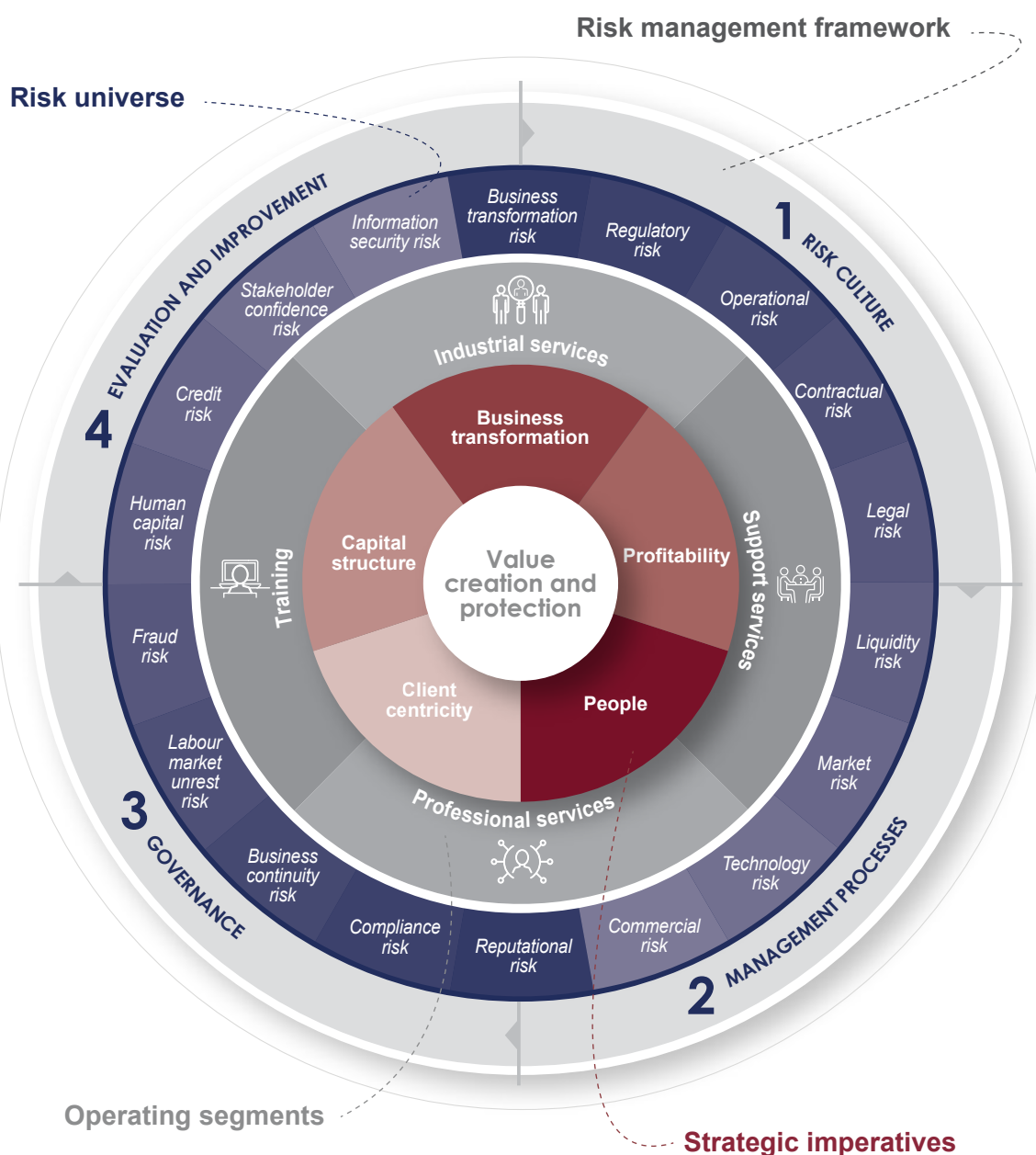
# Risks and mitigating controls

The Board is responsible for the governance and mitigation of risk within the Adcorp Group and holds the Chief Executive Officer and the members of the executive management team accountable for risk management. It sets the direction for how the Group approaches and addresses risk and mandates the Audit and Risk Committee to exercise ongoing oversight of risk management. We embrace a structured and embedded risk management framework and strategy towards identifying and managing inherent as well as new emerging risks, in pursuit of achieving our strategic objectives and creating sustainable value. <sup>4, 11</sup>

## Risk management strategy and universe

Adcorp's enterprise risk management (ERM) framework is aligned to the business strategy and is intended to provide a proactive, uniform approach to risk management. The aim is to provide the Group with the information and direction needed to manage effectively risks and opportunities and continually take corrective action that allows us to deliver on our business strategy.

The Group's risk strategy and management universe are defined in the Board-approved ERM framework which comprises largely the following:

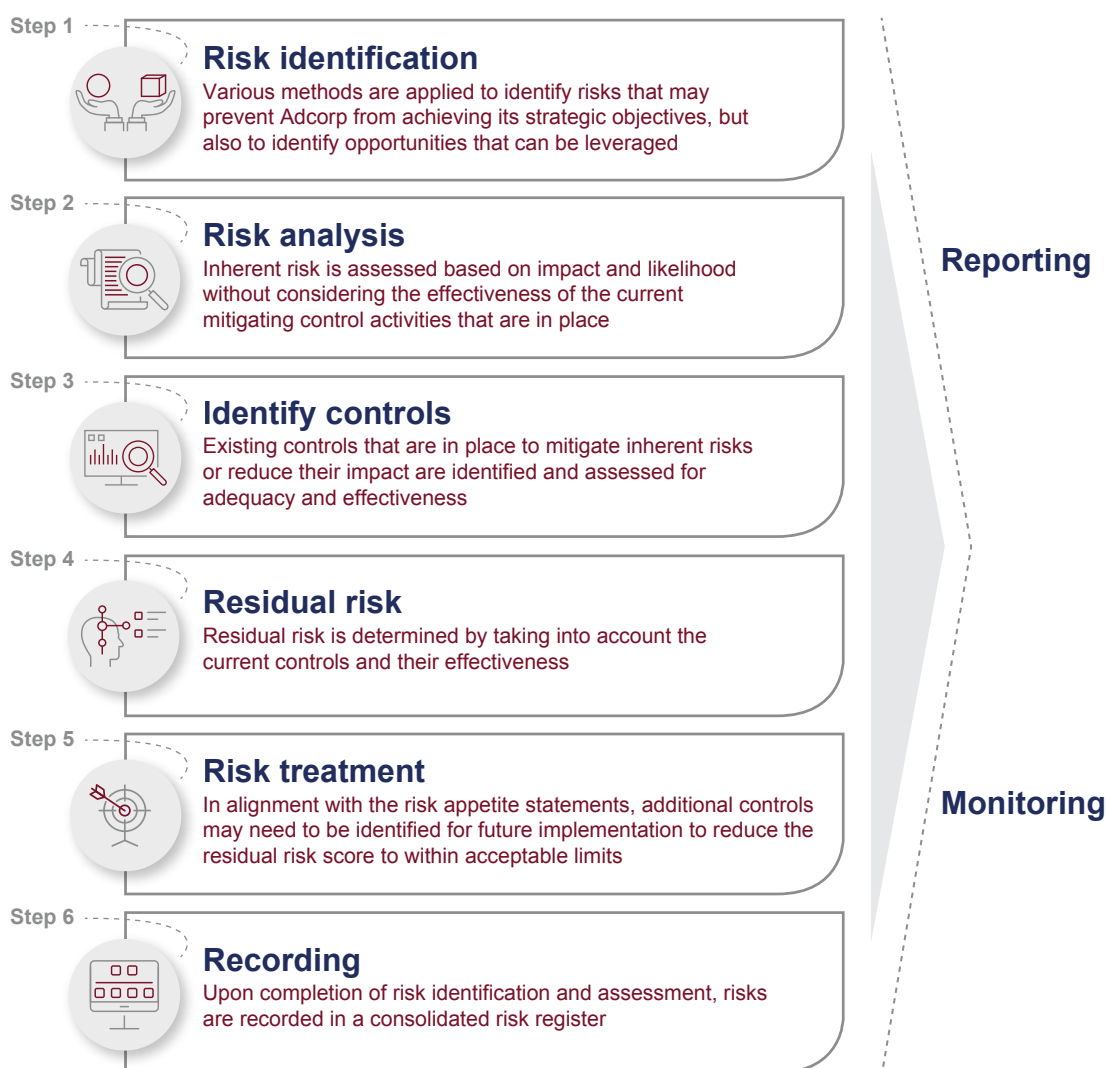


## Risk culture

The Adcorp Group risk culture is influenced by the tone set by the Board and cascaded down to the various levels of management. This is consistently and continuously enforced through effective communication around risk and ethics. The Group's risk culture, along with the degree of risk it is willing to take in pursuit of creating shared value and achieving its strategic objectives, are embedded in its risk appetite and risk tolerance statements as defined and enforced.

## Risk management process


Adcorp's risk management process is the systematic application of management policies, procedures and practices to identify, analyse, record, monitor and report on its risk universe, as depicted below. Risk tolerance levels guide additional actions and controls required as well as levels of escalation required.



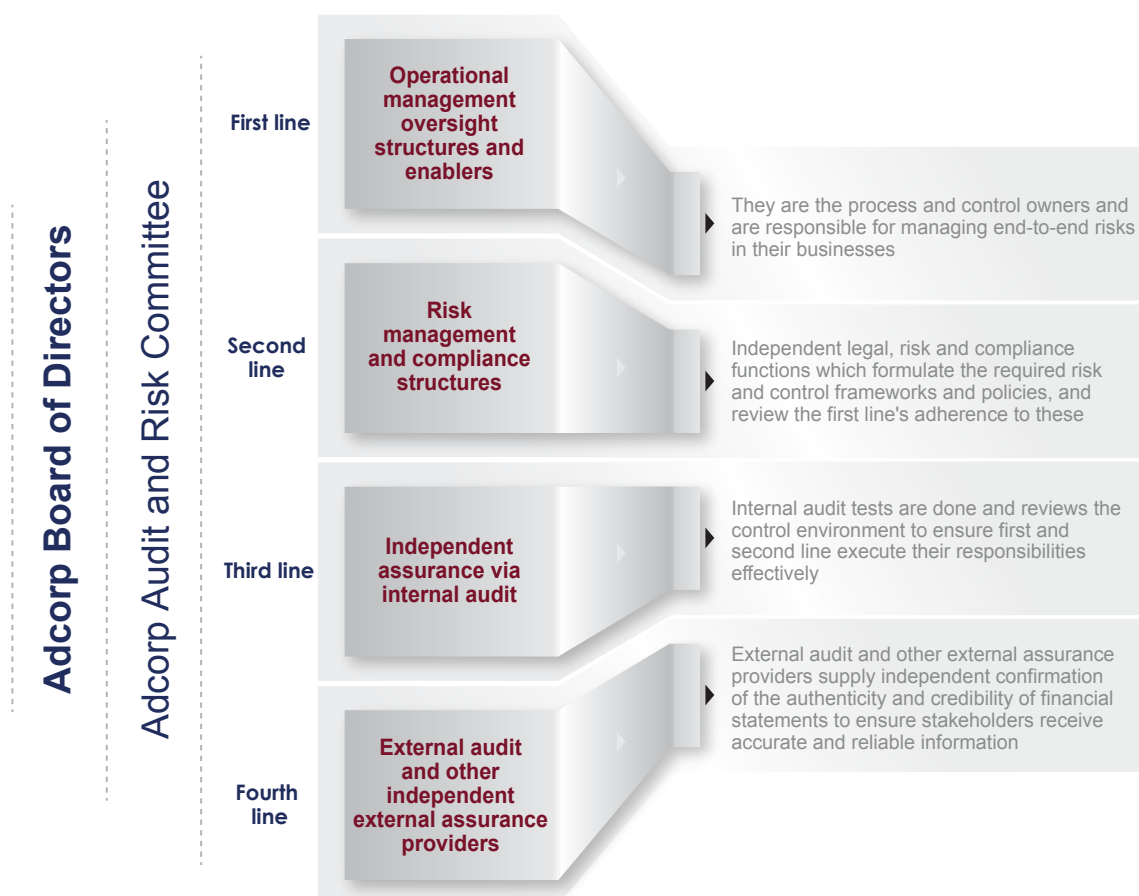


# Risks and mitigating controls continued


## Governance underpinned by combined assurance

The Adcorp Board is supported in the execution of its duties by the Audit and Risk Committee which meets at least quarterly to review the change in Adcorp's risk profile. This ensures that the underlying risk mitigation controls are clearly defined, enforced and adequately addressed by the various elements included in the combined assurance framework.  4; 11

Combined assurance within the Adcorp Group ensures the integration, coordination and alignment of risk management and assurance processes so that when taken as a whole, these enable an effective control environment and support the integrity of information used for decision making by management. The relevant assurance providers are indicated in the risk registers to ensure all high and medium-rated residual risks are covered by an assurance provider.



## Approach to risk appetite and risk tolerance

Adcorp's risk appetite is the maximum risk that the Group is willing to take in pursuit of its strategic objectives. When any major strategic or tactical decision is made by the Group, the risk appetite statements ensure that the compatibility of a course of action with our risk appetite is always considered.  11

## Material issues

The Adcorp Group did not conduct a separate materiality determination process during FY2020. Instead, material issues were identified through the rigorous process followed by the leadership team as they mapped out the strategy guiding the Group's focus areas.

## Evaluation and improvement

Risk management practices and procedures at Adcorp are continually improved through learning and experience. Risk performance indicators are monitored and reviewed on an ongoing basis to measure the adequacy of risk management practices.

## Strategic risks and issues

The significant strategic risks and issues have been ranked according to their residual risk ranking, i.e. based on the exposure levels after mitigating action and controls were taken into consideration.



Principle risk	Descriptor	Mitigating controls and actions
1.		
<b>Liquidity and funding risk</b>	Difficulty in meeting our funding arrangements (covenants) and terms and conditions as they fall due, as a result of a constrained ability to generate sufficient cash resources.	<ul style="list-style-type: none"> <li>Detailed treasury policy in place and actively managed.</li> <li>Central treasury function monitoring covenant compliance for Group.</li> <li>Daily cash flow management analysis, supported by medium and long-term cash flow forecasts.</li> <li>Effective collections process and strict credit limit management.</li> <li>Adequate credit insurance cover.</li> <li>Bank account reduction and optimisation.</li> </ul>
<b>Differentiation opportunity</b>	Long-term planning of funding requirements for improved growth and investment across the Group. Restructure of collections teams to adequately support operating entities on key accounts. Transform/re-engineer full client billing and collections process. Develop strong customer plans and relationships over a rolling three-year period.	

# Risks and mitigating controls continued

Principle risk	Descriptor	Mitigating controls and actions
2.		
Commercial risk	High concentration in strategic client portfolio resulting in revenue dependency on a limited number of core clients.	<ul style="list-style-type: none"><li>• Expand Adcorp's footprint in existing strategic clients through ongoing sales and delivery excellence.</li><li>• Proactive commercial engagement to onboard new prospective clients.</li><li>• Continuous monitoring of client satisfaction and ensuring optimal service delivery.</li><li>• Dedicated focus on commercial initiatives and implementation of growth strategy.</li><li>• Executive relationship management with existing and prospective strategic clients.</li><li>• Alignment of management key performance indicators (KPIs) on sales, service delivery and strategy execution.</li></ul>
Differentiation opportunity	Continuous innovation to develop solution offerings to new and/or prospective clients. Expansion and continuous improvement of solutions offered to existing strategic clients. Elevate client relationships across full client portfolio to that of trusted business adviser.	
3.		
Operational risk	Potential failure or breakdown in internal processes and people resulting in sub-standard service delivery management – and, in turn, negatively impacting client retention.	<ul style="list-style-type: none"><li>• Key account managers identified and assigned to key accounts.</li><li>• Effective monthly client service review meetings and management of action plans.</li><li>• Proactive C-suite to C-suite engagement to maintain relationships.</li><li>• Ongoing monitoring of client satisfaction levels through surveys.</li><li>• Independent assurance checks to confirm service level agreement adherence.</li><li>• Alignment of management's KPIs on sales, service delivery and strategy execution.</li></ul>
Differentiation opportunity	Client centricity and client service become a key enabler of winning new and retaining existing business. Innovative solutions to optimise consistent service delivery.	
4.		
Human capital risk	Tough operating environment and ongoing restructuring initiatives adversely impacting culture and workforce engagement, ability to attract and retain skilled and committed resources required for strategy execution. Dependency on key individuals with longstanding client relations.	<ul style="list-style-type: none"><li>• Inclusion of all levels in operating model discussions and ongoing transparent communications.</li><li>• Establish purpose-led organisation and teams.</li><li>• Finalise restructuring requirements and create stability.</li><li>• Change management initiatives to build highly engaged teams.</li><li>• Succession plans established.</li><li>• Talent management framework and ongoing talent reviews.</li><li>• Sustainable equity solutions spanning recruitment, skills development and promotion are underway.</li><li>• Proactive retention strategies and key roles ringfenced.</li><li>• Identify key individuals and develop retention strategies and client relationship succession plans.</li></ul>
Differentiation opportunity	Launched and implemented the Adcorp Formula for Success. Attract entrepreneurial individuals who thrive in volatile, uncertain, complex and ambiguous environment. Lead the curve to create skills for the evolved world of work.	
5.		
Business transformation risk	<p>Lack of agility to transform, deliver innovative solutions and create competitive advantages to remain relevant in the current landscape, underpinned by new technologies and disruptive market forces.</p> <p>Inadequate implementation of coordinated business development initiatives to support transformation and growth targets.</p>	<ul style="list-style-type: none"><li>• Investment in enabling systems and data analytics capability to drive optimal decision making.</li><li>• Investment in innovative technology solutions to remain relevant.</li><li>• Proactive assessment and delivery against client value drivers.</li><li>• Management's KPIs linked to business development initiatives.</li><li>• Implementation of a robust customer relationship management strategy and a key account management strategy and new business development.</li><li>• Implementation of approved Group simplification structure that incorporates tax efficiencies.</li></ul>
Differentiation opportunity	New operating model is more agile and responsive to client needs. Build a learning and constantly evolving organisation.	

Principle risk	Descriptor	Mitigating controls and actions
6.		
Market risk	<p>Macroeconomic factors negatively impacting our clients and their ability to spend adversely impacting Adcorp's ability to sustain the business, manage its liquidity requirements and execute required growth.</p> <p>Post financial year end the business disruption risk was exacerbated by the COVID-19 national shutdown imposed in response to the outbreak of the coronavirus and increased global economic uncertainty.</p>	<ul style="list-style-type: none"><li>• Robust processes to monitor market fundamentals and trends affecting our clients.</li><li>• Market research and analysis across all sectors.</li><li>• Scenario planning frameworks developed for budgets.</li><li>• Intensified stakeholder engagement.</li><li>• Key account management at senior management levels.</li><li>• COVID-19 business continuity plans and crisis response policies developed, strict financial management disciplines enforced and organisational restructure to ensure lean business delivery supported by core critical functions agreed in conjunction with the Adcorp Board to ensure business sustainability and also to ensure the safety of both our workforce and our clients.</li></ul>
Differentiation opportunity	<p>Implementation of lean and agile organisational structure.</p> <p>Provide optimal client solutions in line with changing market conditions.</p> <p>Diversifying and optimising business operations across the Group.</p> <p>Business delivery innovation and effective use of online platforms for business continuity.</p>	
7.		
Technology risk	<p>Difficulty in implementation of the new ERP transformation programme resulting in non-achievement of anticipated business benefits.</p>	<ul style="list-style-type: none"><li>• Robust business case and anticipated business benefits articulated and approved at commencement of ERP transformation programme.</li><li>• Detailed solution architecture and selection of best practice technologies adopted.</li><li>• Business-led and not technology-led programme.</li><li>• Adequate governance structures in place to monitor delivery.</li><li>• Effective change management strategy to ensure operational readiness, training, communication, system adoption and ongoing management oversight.</li></ul>
Differentiation opportunity	<p>Build a lean and agile organisation by optimally leveraging its data for decision making.</p> <p>Increased agility and business efficiencies enabled by data-driven scenarios.</p>	
8.		
Transformation risk (B-BBEE)	<p>Delivering sustainable B-BBEE solutions to drive optimal transformation in the business to meet commercial B-BBEE requirements and contractual B-BBEE obligations.</p>	<ul style="list-style-type: none"><li>• Risk and scorecard drivers are closely monitored by the Transformation, Social and Ethics Committee (TSEC) and the black economic empowerment (BEE) working committees (subcommittees of the Board).</li><li>• B-BBEE specialist driving optimal transformation solutions, scenario planning and proactive management of operational scorecards.</li><li>• Ongoing tracking and management of contractual obligations.</li><li>• Formal B-BBEE improvement plan.</li><li>• Management's KPIs aligned with transformation requirements and measurement of actual performance against agreed criteria.</li></ul>
Differentiation opportunity	<p>Long-term sustainable value creation for all stakeholders and the communities we operate in.</p> <p>Driving true benefits to the intended beneficiaries of Adcorp's transformation programme.</p> <p>Making a difference to our supplier development and enterprise development business partners by supporting and guiding them on their business evolution journey.</p>	








# Chairman's report

**“COVID-19 is an unprecedented humanitarian crisis that has tested every business’ risk management protocols and will forever change the way we work. Adcorp remains steadfast in its commitment to ensuring the employability of our fellow South Africans as we navigate a new normal.”**

**Gloria Serobe**  
Chairman



The Adcorp Group is disappointed to report a net loss from continuing operations of R609 million compared to a R256 million profit for the prior year. The decline in performance can be attributed to a combination of challenges in the Group's trading environments, unsatisfactory operating performance and significant impairments to our resource-based cash-generating units. The year in review was also marked by changes in leadership in key executive roles and a necessary yet disruptive rationalisation process.

Following a sharp decline in performance at half-year 2020, the Board embarked upon a review of the strategy and initiatives to ensure that focus is placed on the Group's core competencies and a sustainable balance of Group activities is maintained. The changing business environment also necessitated an extensive review of Adcorp's portfolio of companies, resulting in the Board's decision to divest of non-core operations and explore opportunities to exit Australia. <sup>4</sup>


## Trading environment

Even before the COVID-19 pandemic plunged the global economy into the deepest contraction experienced in decades, the South African economy was facing macroeconomic challenges akin to a recession. South Africa's annual gross domestic product (GDP) growth over the past five years has averaged 1.5%, fuelled by low business confidence, increasing consumer and sovereign debt levels, an inadequate education system and ongoing rolling blackouts. Just as South Africa entered the COVID-19 lockdown, the country's sovereign credit rating was downgraded to junk status by Moody's. Consequently, many South African organisations entered the pandemic already in precarious financial positions which have only been exacerbated by the economic lockdown imposed by the government to contain the spread of COVID-19.

Lockdown has, and still is, affecting businesses severely with approximately 85% of businesses reporting reduced turnover, a third of businesses indicating that they were laying off staff in order to cope with the effects of COVID-19, half of businesses

indicated a pause in trading activity with 10% of businesses indicating permanent closure. Lockdown forced employees into the confines of their homes. While some were able to remain productive thanks to technology, others were not.

The Adcorp Group has also faced significant trading challenges in the Australia region. In the last year, the Australian economy was affected by an economic slowdown, droughts, fires and now, similar to South Africa, the effects of COVID-19. Although Australia's national response to the pandemic has been less severe than in South Africa, contractor volumes in the industrial sector have been adversely affected by the temporary closure of facilities due to infections and the related deep-cleaning requirements.


The cumulative effects of the pandemic and the resultant permanent trends in Adcorp's markets remain to be seen. However, economic recovery will be slow due to reduced demand and damage to productive capacity. <sup>4</sup>

## Sustainability

Risks associated with the sustainability of the Group are dealt with directly by the Board. The Group has experienced significant leadership changes over the past five years. These changes, coupled with constant rationalisation and restructuring processes, have led to instability among staff and an inward-looking organisation. These developments occurred within the context of a weakened South African economy and a time of political uncertainty in the Australian market.

The first steps to achieving a sustainable organisation will be in creating stability in our leadership and operational structures and entrenching a culture of customer and candidate centricity. In addition, the Group 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. The Board and management are committed to restructuring the Group in a sustainable manner as well as reducing the debt levels to de-risk the business and strengthen the balance sheet.

The COVID-19 pandemic has presented extraordinary risks for the countries and communities in which we work. It remains vital that businesses continue to react with agility to an uncertain and rapidly evolving situation in order to mitigate these risks for operations and workforces. Following the declaration of COVID-19 as a pandemic by the World Health Organization in March 2020, Adcorp activated its crisis plan protocols and established a COVID-19 crisis committee. This committee comprising management and the Board moved quickly to put in place business continuity and liquidity management measures to mitigate the impact of reduced business activity resulting from the pandemic and ensuing lockdowns. Consequently, the Group has survived the initial shock of the crisis but as the pandemic increases in both magnitude and duration, its economic effects will undoubtedly have a negative impact on the Group's performance for FY2021.

Management continues to monitor and respond to the COVID-19 pandemic and lockdowns, ensuring the continued sustainability of Adcorp through the crisis and thereafter by remaining client-centric, agile and productive. The Group's overarching commitment is to continue in our endeavours to keep our staff, contractors, assignees, learners as well as our communities safe from infection or supported in the case of infection. We remain unrelenting in our support of our clients, particularly those in essential services, and those who are able to work from home.  4; 11

## Governance

### Changes to the Board

There have been several changes to the Board and executive leadership team during FY2020 and post year-end:


- Appointment of Phil Roux as Chief Executive Officer effective 23 April 2020.
- Resignation of Cheryl-Jane Kujenga as Chief Financial Officer effective 31 May 2020.
- Appointment of M Lubega as a non-executive director effective 1 July 2020.
- Appointment of Clive Smith as a non-executive director effective 10 January 2020.
- Resignation of Innocent Dutiro as Chief Executive Officer effective 8 October 2019.
- Appointment of Ronel van Dijk as an independent non-executive director effective 6 June 2019.
- Appointment of Monde Nkosi as a non-executive director effective 6 June 2019.
- Resignation of Mncane Mthunzi as an independent non-executive director effective 6 June 2019.
- Resignation of Paul Moeketsi as a non-executive director effective 6 June 2019.

The Board would like to thank the outgoing directors for their valued contribution to the Group and wish them well in their future endeavours. We welcome the new members to the Board and look forward to transforming the Adcorp Group together.

During the year there were also changes to the Company Secretary as Fluidrock Co Sec Proprietary Limited resigned and Lisa Laporte was appointed as Company Secretary with effect from 4 May 2020.

## Good governance practices

Adcorp acknowledges its accountability to all its stakeholders under the legal and regulatory requirements applicable to its business in both South Africa and Australia, and is committed to maintaining high standards of integrity, conducting fair dealings and transparency throughout its business. Addressing the threat to the integrity of our business from the ongoing ethics, fraud and corruption challenges facing South Africa remains an imperative for Adcorp.

The Board will continue to implement and improve on good governance practices and principles, emphasise good business ethics and labour practices, have a zero tolerance for corruption and fraud, and build on the frameworks of policies and procedures. Details of the Group's governance structures and our application of the principles of corporate governance, including King IV and regulatory requirements, are provided throughout this integrated annual report.  1; 2; 13

## Outlook and conclusion

Despite the disappointing results and the uncertainty presented by COVID-19, the Board remains optimistic about the Group's value proposition consequent to a rigorous strategic process that has been embarked upon under new leadership. We are confident that in spite of the operating difficulties reflected in the FY2020 results, the business is fundamentally sound and will be able to meet its commitments and strategic intent.

COVID-19 is an unprecedented humanitarian crisis that has tested every business' risk management protocols and will forever change the way we work. As job losses escalate and workforces around the world face the risk of losing their livelihoods, the need for businesses to deliver broader societal value has never been greater. The crisis will have a profound effect on our daily lives and particularly our working life and the economy, therefore it is imperative that we remain as economically productive as possible within the constraints of the safety regulations. Adcorp remains steadfast in its commitment to ensuring the employability of our fellow South Africans as we navigate a new normal.

On behalf of the Adcorp Board, I would like to thank all our stakeholders for their continued support as we endeavour to realise a challenging corporate transformation amid unprecedented times. I wish to express my gratitude to my fellow Board members for their commitment and wise counsel over the past year and my appreciation to the executive team for driving greater transparency and accountability through a trying time for the Group.  5

**Gloria Serobe**  
Chairman

30 July 2020

# Executive report

## Overview

The year ended 29 February 2020 was a particularly challenging one for the Adcorp Group given a tough trading environment compounded by internal operational difficulties. Adcorp has encountered challenging macroeconomic conditions in both South Africa and Australia, the two principal geographies within which the Group operates.

In South Africa, the staffing industry continued to face challenges presented by a contracting economy and rising unemployment. Many of our clients have responded to the sluggish economic outlook by cutting back on the volume of their contingent workforce requirements and delaying the appointment of permanent employees. This has resulted in a higher than anticipated volume reduction in our South African Industrial Services business, exacerbated by margin pressure from clients. It has also negatively impacted the South Africa Professional Services business, which also faces a challenge in sourcing the increasing demand for scarce skills in the digital and technology sphere. This negative performance has been somewhat mitigated by positive performance in the Training business, which has more than doubled in earnings, driven by a greater commercial focus and rationalisation of the business. Functional Outsourcing and Financial Services have also posted a strong operational performance.

In Australia, a series of natural disasters and political uncertainty depressed the demand for labour. The challenges faced in Australia in the year under review prompted a rigorous assessment of the Group's strategic position in this market culminating in a decision by the Adcorp Board to explore opportunities to exit this geography.

## Operational review

### SOUTH AFRICA

#### Industrial Services

The Industrial Services division houses Adcorp's largest revenue generators, being temporary employment services (TES) and functional outsourcing of large workforces in industrial sectors.

Industrial Services revenue decreased by 7% due to reduced demand for labour and the final effects of the July 2018 Constitutional Court ruling on the "deeming" provision in the Labour Relations Act (LRA). The reduction in headcount volumes in Industrial Services has precipitated a review and restructure of the TES portfolio to prevent further erosion of margins.

The functional outsourcing business leverages the Group's competencies in workforce solutions to manage people-intensive processes on behalf of clients primarily in the retail and logistics sectors. This business continues to grow, albeit modestly, as clients revise their labour supply models and opt to outsource the management of their workforces and the associated risks.

#### Support Services

The Support Services division houses traditional temporary staffing solutions in office-based professions and contact centres operating under the *Kelly* and *Quest* brands. The division also includes the nursing placements business, *Charisma*.

*Kelly* and *Quest* service clients primarily in the financial services, technology and telecommunications sectors and were severely impacted by the LRA ruling in 2015. The contact centre staffing part of this business has continued to experience immense

headcount volume shrinkage as clients have opted to take staff permanently or augment their workforces with digital solutions. In FY2020, Support Services revenue decreased by 32% and EBITDA margin compressed significantly from 3.6% to 1.4%.

Going forward the *Kelly*, *Quest* and *Charisma* businesses will be managed within the Professional Services division given the significant overlap in their client bases.

## Professional Services

Professional Services revenue decreased by 9% due to a reduction in demand for independent contractors and permanent placements as clients reduced budgets in response to macroeconomic pressures.

The Professional Services division, which provides permanent resourcing solutions and independent contractors mainly in the technology sector, has been negatively impacted by a slowdown in recruitment and delays in filling placement roles. Finding the right skills in technology is increasingly becoming a challenge that is hampering the time it takes to place key roles within the IT resourcing business.

## Training

The Training division's revenue declined by 14% mainly due to the Group's strategic decision to focus on fit-for-purpose functional skills training in the engineering and construction sector, which yields higher margins. Therefore, despite a decline in revenue year on year, Training has seen a significant improvement in margins at a gross profit and EBITDA level, with the EBITDA margin improving to 16% in FY2020 from 3% in FY2019.

Adcorp's disability solutions company, *iCan!*, continued to experience a demand for inclusive training solutions during the year and has retained its market leadership position. *Torque IT*, which is an IT certification business, also performed well as digital transformations within client environments drive demand for enhanced workforce skills.

## Financial Services

Trading has remained stable for the Financial Services division, which houses fulfilment services for the insurance sector, as well as affordable lifestyle benefit solutions customised for the Group's temporary assignee base. EBITDA increased 6% year on year, despite a 9% decrease in revenue which is largely attributed to a reduction in the temporary assignee base. Financial Services is a non-core part of the Group and has post year-end been classified as an asset held for sale.

## AUSTRALIA

### Industrial and Professional Services

Revenue in the Australia business declined by 8% mainly due to drought conditions and flooding in the first half of the year, which materially impacted Labour Solutions Australia (LSA). LSA primarily provides staff to the agricultural sector.

Volumes were also lower in the remaining Australia businesses due to lower economic activity in the first half of the year as a result of the banking sector inquiry and national elections.

Although placement volumes stabilised in the second half of the year, this was insufficient to cover the revenue lost in the first half of the year. The fires that affected Australia in the second half of the year were a further contributing factor to the flat performance within that region.



## Financial overview



Revenue from  
continuing  
operations

↓  
10%

**to R13 billion**

(2019: R14.5 billion  
*restated*\*)



Operating profit  
from continuing  
operations

↓  
49%

**to R195 million**

(2019: R379 million  
*restated*\*)



Cash generated by  
operations

↓  
57%

**to R213 million**

(2019: R500 million)



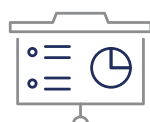
No dividend  
declared for the  
year ended  
29 February 2020

(2019: 96.1 cents)



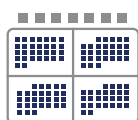
Loss per share  
**561 cents**

(2019: Earnings per  
share 240 cents\*)



Headline loss  
per share  
**6.2 cents**

(2019: Earnings per  
share 245 cents\*)



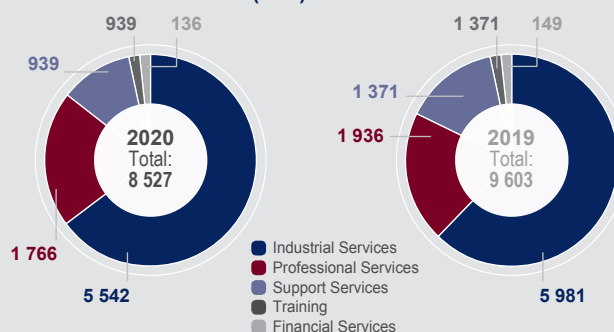
Days Sales  
Outstanding (DSO)  
**54 days**

from 52 days  
in 2019

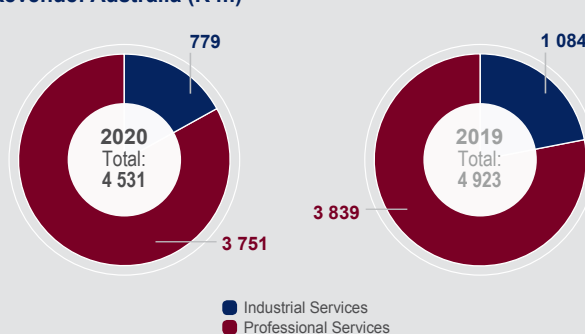


Gearing ratio  
**58%**  
from 27%

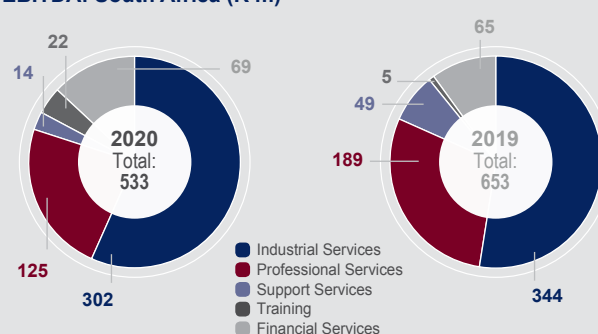
Revenue: South Africa (R'm)



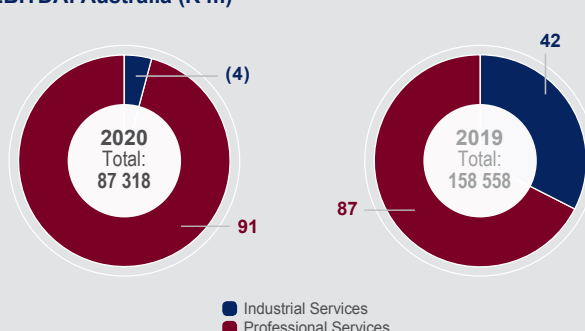
Revenue: Australia (R'm)



EBITDA: South Africa (R'm)



EBITDA: Australia (R'm)



\* Restated to classify Dare Holdings Proprietary Limited – Australia as an asset held for sale in accordance with IFRS 5 (Discontinued Operations).

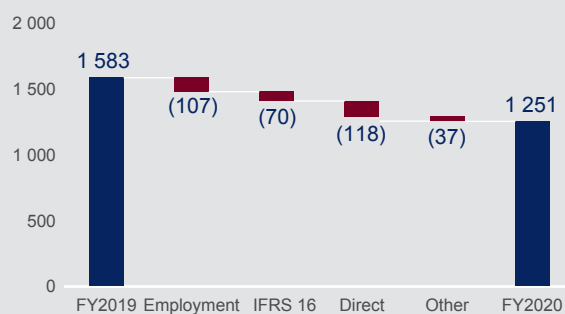


## Executive report continued

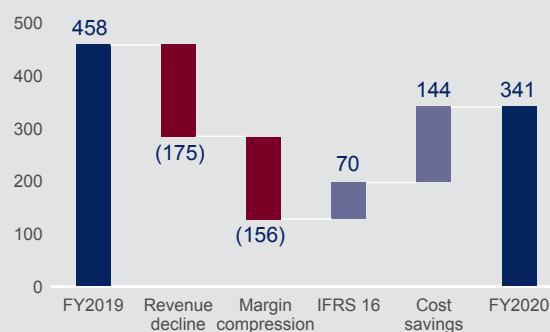
Adcorp's revenue from continuing operations decreased across all segments including Australia which resulted in a consolidated Group revenue decline of 10% from R14.5 billion to R13 billion. The economic constraints experienced by clients in the TES segment negatively impacted gross margin due to persistent price pressures.

The Group EBITDA from continuing operations for the year decreased by 26% to R341 million compared to R458 million in the prior year.

**Operating cost analysis (R'm)**



**EBITDA movement (R'm)**



The new lease accounting standard IFRS 16 *Leases*, which requires the lessee to recognise all qualifying leased assets on the balance sheet, has been adopted prospectively by the Group for the year ended 29 February 2020.

In light of the deterioration in financial performance, management undertook a review of the significant goodwill and intangible assets balance. The Group has impaired R558 million of goodwill in Paracon, BLU, Cynergy, DAV and LSA given the significant slowdown in these businesses over the past year. The details of these impairments can be found in note 7 of the Annual Financial Statements.

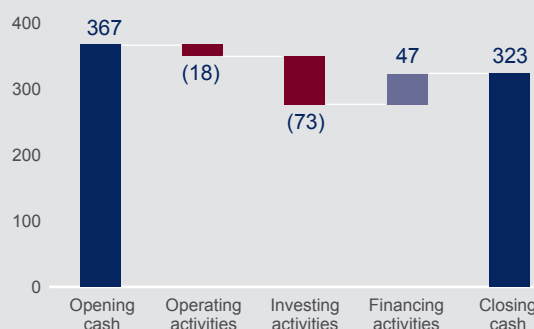
The drive to rightsize the business and ensure an efficient operating structure and processes has continued to yield positive results. The implementation of phase two of the cost optimisation programme has delivered net savings of R144 million in operating expenses for FY2020 compared to FY2019.

The Group's effective tax rate for FY2020 was -16% driven largely by the Employment Tax Incentive (ETI), learnership allowances and the recognition of certain assessed losses as deferred tax assets in line with growth expectations. Given the prevailing economic climate the Group decreased its recognition of assessed losses to R343 million from R446 million in 2019. The unrecognised portion of the assessed loss is R680 million (2019: R313 million).

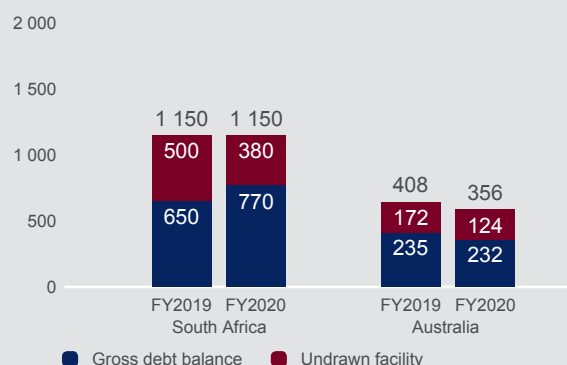
Cash generated by operating activities declined during the year from R500 million to R213 million, driven by lower EBITDA and a slight deterioration in the Group's DSO from 52 days to 54 days.

Post year-end the South Africa facility was successfully restructured down to R850 million from R1 billion in line with the Group's plan to degear the balance sheet. An accordion facility of R150 million is available from December to February for the Group's peak trading period, driven by the payout of year-end bonuses to our managed workforce.

**Cash flow FY2020 (R'm)**



**Gross debt (R'm)**



## Events after the reporting period: Impact of COVID-19

Adcorp acted swiftly by implementing cost-saving and liquidity management interventions to mitigate the impact of reduced business activity resulting from the COVID-19 pandemic and associated lockdowns. The Group has been working closely with all stakeholders to mitigate any risk to the business and maintain a healthy cash flow position.

Business continuity measures have been in place since the announcement of a National State of Disaster in South Africa. These crisis management protocols which include staff temperature screening by Adcorp Group company *Charisma* and various initiatives run by a COVID-19 crisis committee comprising the Adcorp Board and management, have been effective in ensuring that the parts of the Group that support clients in essential services remain operational throughout the lockdown. <sup>11</sup>

Given the nature of the services the Group provides, the COVID-19 pandemic and lockdown had a mixed effect on operations. The TES and functional outsourcing businesses provide staffing to essential services 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 the various levels of lockdown, albeit at reduced capacity.

The permanent placements business initially experienced a negative shock as a result of the lockdown as clients reacted by implementing hiring freezes, however, this segment is slowly recovering.

*Paracon*, which mainly places IT independent contractors, has been largely unaffected by the lockdown due to the critical nature of these skills and the ability of these professionals to work remotely.

In line with the national lockdown regulations on education, the Training businesses which are largely classroom-based remain closed. 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 although plans to virtualise *Torque IT* and *PMI* courses are underway.

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.

## Outlook





The key focus for the Adcorp Group in the 2021 financial year will be internal stabilisation, the pursuit of incremental profitable top-line growth, margin enhancement and cost vigilance. The extent of the impact of COVID-19 on the business and future financial results remains uncertain. The Group continues to manage liquidity judiciously and implement the necessary actions to ensure business continuity.

The TES sector has continued to grow in recent years albeit at a slower rate given the impact of the Constitutional Court ruling on the "deeming" provision in the LRA. TES remains a pillar of job creation for the South African economy particularly for first-time job seekers and the youth. In addition, flexibility and staffing solutions will be a key requirement for some industries as they look to maintain operational levels in the year ahead, while navigating the unprecedented challenges arising from the COVID-19 pandemic.

Adcorp remains South Africa's largest workplace solutions provider and continues to use its capabilities and market position to make a positive impact on society by increasing employability and connecting people with job opportunities.





# Board of Directors

## NON-EXECUTIVE DIRECTORS

	Qualifications	Date of appointment	Significant directorships	Skills and expertise	Committee membership
 <p><b>Gloria Serobe* (60)</b> Chairman Non-executive</p>	BCom, MBA	11 July 2017	<ul style="list-style-type: none"> <li>- Women Investment Portfolio Holdings Limited (WIPHOLD)</li> <li>- Denel SOC Ltd</li> <li>- Hans Merensky Holdings (Pty) Ltd</li> <li>- Sasfin Holdings</li> <li>- Transtar Hotel</li> <li>- Solidarity Response Fund</li> </ul>	Gloria is the founder and Executive director of WIPHOLD and an honorary member of the Actuarial Society of South Africa. She also serves on the South African Institute of Chartered Accountants (SAICA) Advisory Council.	<b>Nomco</b> <b>Chair</b>
 <p><b>Michael Spicer* (67)</b> Lead Independent Non-executive</p>	BA, MA (History)	21 August 2013	<ul style="list-style-type: none"> <li>- Wesgro</li> </ul>	Mike is the Chairman of the Board of Governors of Rhodes University. He spent 20 years at Anglo American PLC ending his career as a non-executive director and Chairman of Anglo American South Africa. Currently, Mike serves as Deputy Chair of Wesgro.	<b>ARC</b> <b>Nomco</b> <b>Remco</b>
 <p><b>Gugu Dingaan (44)</b> Non-executive</p>	CA (SA), EDP	18 August 2010	<ul style="list-style-type: none"> <li>- Distell Group Ltd</li> <li>- Landis+Gyr</li> <li>- Sasfin Holdings Ltd</li> <li>- Sasol Mining</li> <li>- Blue Spec Holdings</li> </ul>	Gugu is the Investment Executive of WIPHOLD, which she joined in 2001. She has extensive experience in mergers and acquisitions, transaction structuring and valuations. Before joining WIPHOLD she completed her articles with PricewaterhouseCoopers (PwC).	<b>TSEC</b> <b>Investco</b>
 <p><b>Cecil Maswanganyi* (54)</b> Independent Non-executive</p>	BCompt, MBL (UNISA) Postgraduate Diploma in Taxation, CIMA Adv Dip MA	1 March 2017 (previously an alternate director from 11 July 2012)	<ul style="list-style-type: none"> <li>- Simeka Group (Executive director)</li> <li>- Simeka Capital Holdings</li> <li>- Verge Management Services</li> <li>- Wescoal Holdings</li> </ul>	Cecil is Group Chief Executive Officer of the Simeka Group, a private equity investment firm. His experience encompasses deal structuring, strategy and public sector. He was Group General Manager: Strategy at Transnet and was involved in Public Sector Consulting at Accenture.	<b>Investco</b> <b>Chair</b> <b>Nomco</b> <b>TSEC</b> <b>Remco</b>

\* Directors to be re-elected





- Audit and Risk (ARC)
- Remuneration (Remco)
- Nominations (Nomco)
- Transformation, Social and Ethics (TSEC)
- Investment (Investco)

	Qualifications	Date of appointment	Significant directorships	Skills and expertise	Committee membership
 <p><b>Sindisiwe Mabaso-Koyana (49)</b> <i>Independent Non-executive</i></p>	CA (SA)	14 September 2012	<ul style="list-style-type: none"> <li>- AWCA Investment Holdings</li> <li>- Toyota South Africa</li> <li>- Public Investment Corporation SOC Ltd</li> <li>- MTN Zakhele Futhi</li> <li>- Sun International Ltd</li> </ul>	Sindi is a founding member of African Women Chartered Accountants (AWCA) Investment Holdings and currently serves as the organisation's Executive Chair. She previously served as Group Chief Financial Officer of Transnet and the Passenger Rail Agency of South Africa and was a Senior Partner at EY.	<b>ARC Chair</b> <b>Remco</b>
 <p><b>Sam Sithole* (47)</b> <i>Non-executive</i></p>	CA (SA), CA (Z)	4 July 2017	<ul style="list-style-type: none"> <li>- Altron Ltd</li> <li>- Metair Investments</li> <li>- Sun International Ltd</li> <li>- Value Capital Partners (Pty) Ltd</li> </ul>	Sam is one of the founding partners of Value Capital Partners and is the company's Chief Executive Officer. He was previously a Partner at Deloitte before joining Brait as the Group Financial Director.	<b>Remco Chair</b> <b>Nomco</b>
 <p><b>Dr Sydney Mufamadi (61)</b> <i>Independent Non-executive</i></p>	MSc (State Society and Development), PhD (Political Studies)	11 July 2017	<ul style="list-style-type: none"> <li>- Impala Platinum (Pty) Ltd</li> <li>- Zimbabwe Platinum (Pty) Ltd</li> <li>- Transnet SOC Ltd</li> </ul>	Sydney is currently Director of the School of Leadership at the University of Johannesburg and has held various leadership positions including ministerial roles in government.	<b>ARC</b> <b>TSEC</b>
 <p><b>Dr Phumla Mnganga (52)</b> <i>Independent Non-executive</i></p>	BA, BEd, MBL, PhD	6 September 2018	<ul style="list-style-type: none"> <li>- The SPAR Group Ltd</li> <li>- Crooks Brothers Ltd</li> <li>- Gold Circle (Pty) Ltd</li> <li>- Altron Ltd</li> </ul>	Phumla was founder and Managing Director of Lehumo Women's Investment Holdings and also previously held the role of HRD/Transformation Executive at Tongaat Hulett Group. Her considerable and varied experience includes human resource consulting, change management and B-BBEE investing.	<b>TSEC Chair</b> <b>Investco</b>

\* Director to be re-elected.

# Board of Directors continued

## NON-EXECUTIVE DIRECTORS

	Qualifications	Date of appointment	Significant directorships	Skills and expertise	Committee membership
 <p><b>Herman Singh (59)</b> Independent Non-executive</p>	BSc (Mech Eng.), GDE (Industrial Engineering), MBA	6 September 2018	<ul style="list-style-type: none"> <li>- 4Sight Holdings Ltd</li> <li>- Cenfri (The Centre for Financial Regulation and Inclusion)</li> <li>- Bowwood and Main 273 Ltd</li> </ul>	Herman's focus on the convergence of technology and business has resulted in him taking on a number of key technology-focused roles at MTN, Vodacom and Standard Bank.	Investco
 <p><b>Monde Nkosi (30)</b> Non-executive</p>	BBusSc (Hons), MA (Stanford), MBA (Stanford)	6 June 2019 (previously an alternate director from 19 October 2018)	<ul style="list-style-type: none"> <li>- Grand Parade Investments Ltd</li> <li>- Value Capital Partners (Pty) Ltd</li> </ul>	Monde is an investment professional at Value Capital Partners. He was previously a senior associate on the investment team of FFL Partners, a San Francisco-based private equity firm managing over USD2 billion.	Investco
 <p><b>Ronel van Dijk (48)</b> Independent Non-executive</p>	CA (SA)	6 June 2019	<ul style="list-style-type: none"> <li>- PPC Ltd</li> <li>- Grand Parade Investments Ltd</li> </ul>	Ronel is an experienced Chief Financial Officer (CFO) with exposure to corporate governance, internal controls and risk management, strategy development and implementation, and leadership development. She was previously CFO of Spur Corporation and is the current CFO of PPC Limited.	ARC
 <p><b>Clive Smith* (59)</b> Non-executive</p>	ACIS (SA), EDP (GIBS)	10 January 2020	<ul style="list-style-type: none"> <li>- Enviroserve Holdings (Pty) Ltd</li> <li>- Enigma Collections (Pty) Ltd</li> </ul>	Clive was the Group Chief Executive Officer (CEO) of Tsebo Solutions Group from January 2004 to May 2019. His experience includes oversight of complex international acquisitions and two rounds of institutional private equity funding.	Remco Nomco
 <p><b>Melvyn Lubega* (30)</b> Independent Non-executive</p>	BBusSc (Hons) Actuarial Science, MSc Learning and Technology (Oxford), MPP (Oxford)	1 July 2020	<ul style="list-style-type: none"> <li>- Go1 (Co-founder and director)</li> <li>- NEMISA NPC (National Electronic Media Institute of South Africa)</li> </ul>	Melvyn is an actuary by training and is an experienced technology entrepreneur and executive who has built businesses that serve customers worldwide. As a referenced thought leader, he has been invited to speak both abroad and locally on digital transformation, disruptive innovation, the future of the workforce, as well as business strategy.	ARC Investco

\* Directors to be elected.

- Audit and Risk (ARC)
- Remuneration (Remco)
- Nominations (Nomco)
- Transformation, Social and Ethics (TSEC)
- Investment (Investco)



## EXECUTIVE DIRECTOR

	Qualifications	Date of appointment	Skills and expertise	Committee membership
 <p><b>Phil Roux (55)</b> Chief Executive Officer</p>	BCom (Hons), MBA	23 April 2020	Phil is a business executive with more than 30 years' experience, mostly in the FMCG sector. His past roles include Chairman of TiAuto Group, CEO of Pioneer Foods, Executive Director and Business Executive at Tiger Brands and Chief Operating Officer – Africa at Coca-Cola Sabco.	Investco

## Board and Committee meeting attendance for the financial year ended 29 February 2020

	Board <sup>^</sup>	Audit and Risk Committee <sup>^</sup>	Remuneration Committee	Nominations Committee	Transformation, Social and Ethics Committee	Investment Committee
GT Serobe	7/7			2/2		
MW Spicer	5/7	6/10	4/5	2/2		
GP Dingaan	7/7				2/2	1/2
SN Mabaso-Koyana	5/7	10/10	3/5			
C Maswanganyi	4/7		2/2		1/2	2/2
S Sithole	7/7		5/5	2/2		
FS Mufamadi	6/7	2/2			0/2	
P Mnganga	6/7				1/1	0/1
H Singh	6/7	9/10				1/2
MM Nkosi (appointed 6 June 2019, previously alternate director from 19 October 2018)	7/7	2/2 <sup>**</sup>				1/1
R van Dijk (appointed 6 June 2019)	5/5	8/8				
C Smith	1/1		1/1	1/1		
<b>Resigned</b>						
I Dutiro (resigned as CEO 9 October 2019)	6/6	6/6 <sup>**</sup>	2/2 <sup>**</sup>			1/1
CJ Kujenga (resigned as CFO 15 May 2020)	7/7	10/10 <sup>**</sup>	4/5 <sup>**</sup>	2/2 <sup>**</sup>	2/2 <sup>**</sup>	2/2
TP Moeketsi (resigned 6 June 2019)	1/1	1/1				1/1
ME Mthunzi (resigned 6 June 2019)	1/1					1/1

<sup>\*\*</sup> By invitation.

<sup>^</sup> Includes special meetings in addition to the regular schedule of meetings; 2/7 Board meetings and 5/10 Audit and Risk Committee meetings were special meetings.

The following directors were appointed after year-end and therefore did not attend any Board and Committee meetings in the period 1 March 2019 to 29 February 2020: M Lubega and PM Roux.



# Effective leadership through good governance

**Adcorp is committed to achieving high standards of governance, ethics and integrity to contribute to long-term value creation.**

## Application of King IV™

Adcorp's approach to corporate governance is integrated into our standards, policies, practices and procedures and it supports our efforts to apply the King IV™ principles 1 to 16. We continually review our corporate governance practices and the application of the King IV™ principles to ensure we act in the best interests of our stakeholders, comply with applicable laws and regulations and are able to adapt to changes in the regulatory environment.


The Board confirms that the Adcorp Group has in all material respects applied the principles of King IV™ and the application register can be found on our website at <https://www.adcorpgroup.com/about/corporate-governance/>.

The Chairman of the Board has reported on the quality and effectiveness of our Board's leadership during the year under review and the oversight measures in place in the Chairman's report on page 18.  <sup>1; 13</sup> 


## Role of the Board


The Board, elected by shareholders, is accountable for the governance of the Group. The Board exercises leadership by steering the Adcorp Group and setting the strategic direction, approving policy and planning to deliver the strategy, overseeing and monitoring implementation and execution by management, and ensuring accountability for performance.

## Establishing an ethical culture

Addressing the threats to integrity that arise from operating in an environment where ethics, fraud and corruption are a constant challenge, remains a key focus for Adcorp. The Group has a code of ethics and business conduct in place that is regularly reviewed, and employees and other stakeholders have access to an ethics tip-off line through which behaviour that is thought to be unethical or fraudulent can be reported in confidence to an independent external service provider. The Audit and Risk Committee receives regular reports about any fraud prevention in Adcorp and its subsidiaries, which includes a report on activity on the ethics tip-off line. The responsibility for the oversight of ethics is managed by the Transformation, Social and Ethics Committee.  <sup>2</sup>


Adcorp ensures that the Board, senior management and senior members of the finance team are made aware of closed periods during which they may not trade in Adcorp shares. All directors' dealings in Adcorp shares require the prior approval of the Chairman of the Board or a designated director. The Company Secretary maintains a record of all share dealings.

The Board governs compliance with applicable laws, adopted non-binding rules as well as codes and standards in a way that upholds the Group's ethics and ensures that it remains a good corporate citizen.  <sup>13</sup>

*The Adcorp Board is committed to complying with all applicable laws and regulations, and its support and application of certain non-binding codes, standards and plans including the 10 principles of the United Nations Global Compact (UNGC); the South African National Development Plan (NDP); and the Confederation of Associations in the Private Employment Sector (CAPES).  <sup>13</sup>*

Labour legislation, in particular, the South African labour law, is of material significance to the Group, which is represented at international and national forums addressing labour market policies addressing matters such as migration, decent work, artisan training, future skills requirements, employment services, etc. As in previous years, the Board complied with the JSE Listings Requirements during FY2020.

Adcorp's Board-approved compliance risk management framework aims to:

- Ensure alignment with Adcorp's business strategy, its ERM framework and leading practice.
- Serve as a reference for those responsible for managing compliance.
- Maintain a consistent approach to the management of compliance across Adcorp.  <sup>6</sup>

## Compliance with the Department of Trade and Industry codes

Adcorp has a Board-approved B-BBEE strategy which is centrally driven and delivered by means of detailed plans across all five elements and their respective sub-elements. The Group's approach to transformation is to create equal opportunities internally for our employees and externally for our assignees and candidates.

## Our governance framework

Adcorp's governance framework positions the Board as the custodian of corporate governance in Adcorp and provides it with effective control of the business. The Board delegates day-to-day operational management to the CEO and the Group executive committee. By effectively governing Adcorp and taking into consideration our stakeholders' interests, the Board and management contribute value to both the business and its stakeholders. The diagram that follows sets out Adcorp's Board governance structure.  <sup>6</sup>

## Board governance structure



## Board composition 6

Subject to the resolutions set out in the annual general meeting to elect and re-elect the directors, the Adcorp Board shall comprise 12 directors with six independent non-executive directors, four non-executive directors and two executive directors being the CEO and CFO. Noel Prendergast was appointed as interim CFO with effect from 1 July 2020 while the recruitment process is underway to appoint a permanent CFO. Gugulethu Dingaan, a non-executive director, and Sydney Mufamadi, an independent non-executive director, are not making themselves available for re-election.

There have been several changes at Board and executive management level during and post the reporting period as the Board adjusts to the fast-changing external and internal environment. The Board wishes to thank all the outgoing members for their contribution during their tenure with Adcorp and welcomes all incoming members.

In June 2019 Mncane Mthunzi and Paul Moeketsi resigned from the Board. Ronel van Dijk was appointed as an independent non-executive director and Monde Nkosi, previously an alternate director to Samuel Sithole, was appointed as a non-executive director. Following the resignation of the previous CEO, Innocent Dutiro, in October 2019 the Board appointed Cheryl-Jane Kujenga, the previous CFO as the interim CEO while the Board embarked on the search for a CEO. Talib Sadik was appointed as interim CFO to provide support to Cheryl-Jane while she served as interim CEO.

Clive Smith was appointed as a non-executive director on 10 January 2020 to bolster the Board and the executive team's depth of knowledge in the workplace services sector. Melvyn Lubega was appointed as a non-executive director on 1 July 2020 and brings expertise in technology and training to the Board.

In April 2020 the Board announced the appointment of Phil Roux as CEO of Adcorp. Phil has led several successful business

transformation initiatives and the Board looks forward to the streamlining of the Group under his executive leadership. Cheryl-Jane resigned from Adcorp in May 2020 and the Board has appointed Noel Prendergast as the interim CFO while it conducts a comprehensive search for a permanent CFO.

Kevin Fihrer resigned as the Company Secretary in June 2019 and Fluidrock Co Sec Proprietary Limited was appointed as interim Company Secretary and was then confirmed as Company Secretary on the resignation of Zernobia Lachporia after serving for a brief period. Lisa Laporte was appointed as the Company Secretary effective 1 May 2020.

## Board independence

Through the appointment of independent directors and the separation and clear definition of the roles and responsibilities of the Chairman and CEO, Adcorp has established a clear balance of power and authority at Board level. This is further supported by the Lead Independent Director, whose role is to address any conflicts that may arise, provide guidance on and monitor the application of appropriate standards of corporate governance.  7

Adcorp ensures that the interests of minority shareholders are protected. Even though the current composition of the Board is not a majority independent, all directors exercise their duties with an unfettered mind and in an independent manner.

In order to assess the independence of directors who are nominated by and represent larger shareholders, the Board has reviewed the relevant sections of the JSE Listings Requirements, the Companies Act, the Institute of Directors' practice note dealing with the independence of directors and is satisfied that the directors in question apply their minds independently, in the best interests of Adcorp and are not tainted by their shareholding. The independence of directors is reassessed annually by the Nominations Committee and this process is overseen by the Lead Independent Director.

## Effective leadership through good governance continued

The Adcorp Board performs its duties within a framework of policies and controls that provide for effective risk assessment and management of our economic, environmental and social performance. The Board Charter details the roles and responsibilities of the Board, while our memorandum of incorporation (MOI) also addresses certain of the directors' powers and responsibilities. <sup>(K)</sup><sup>10</sup>

The MOI requires one-third of Adcorp's directors to retire from office at every annual general meeting based on their tenure since they were previously elected or re-elected to the Board. <sup>(K)</sup><sup>7</sup>

The roles and responsibilities of the Chairman and the CEO are separate and clearly defined. The CEO is accountable to the Board for leading the implementation and execution of the Board-approved strategy, policies and business plans. As an executive director of the Adcorp Board and Chair of the Group executive committee, the CEO plays a key role in providing a link between management and the Board and ensuring Board decisions are communicated to management. <sup>(K)</sup><sup>10</sup>

The MOI sets out the shareholders' delegation of authority to the Board, which has a formal schedule of matters reserved for its consideration and decision. Its delegation of certain matters to its committees and subsidiary companies is described in the terms of reference of these committees, which are available from the Company Secretary. In addition, the Board delegates authority to the Group executive committee through a Board-approved delegation of authority document.

### Achieving effective control and legitimacy

Adcorp's governance framework and culture provide a solid foundation for the application of King IV™ with a focus on achieving the four corporate governance outcomes of an ethical culture, good performance, effective control and legitimacy. Applying King IV™ is a commitment on the part of Adcorp to stakeholder inclusivity, corporate citizenship and protecting the value we create. <sup>(K)</sup><sup>8</sup>

Directors are required to declare their interests and to disclose any conflicts of interest when and if they arise. If a conflict is disclosed, it is managed appropriately by the Board as required by the Companies Act. A declaration of interests register is maintained and updated by the Company Secretary.

The internal audit team provides the Audit and Risk Committee with a written assessment of the effectiveness of the organisation's governance, risk management and control processes annually. In order to provide a fair assessment of the effectiveness, Internal Audit considers the reports issued by all assurance providers and external compliance consultants that have performed assurance and compliance procedures Group-wide. <sup>(K)</sup><sup>15</sup>

The Audit and Risk Committee obtained assurance on the financial statements, internal controls and sustainability information included in Adcorp's integrated annual report and carried out its statutory duties set out in the Companies Act. It satisfied itself as to the expertise and experience of the CFO while in office and the financial function. The Audit and Risk Committee assessed the independence and performance of the internal and external audit functions.

### Gender

Female	4	36%
Male	7	64%

### Age

30 – 39	2	18%
40 – 49	3	27%
50 – 59	4	37%
60 – 69	2	18%

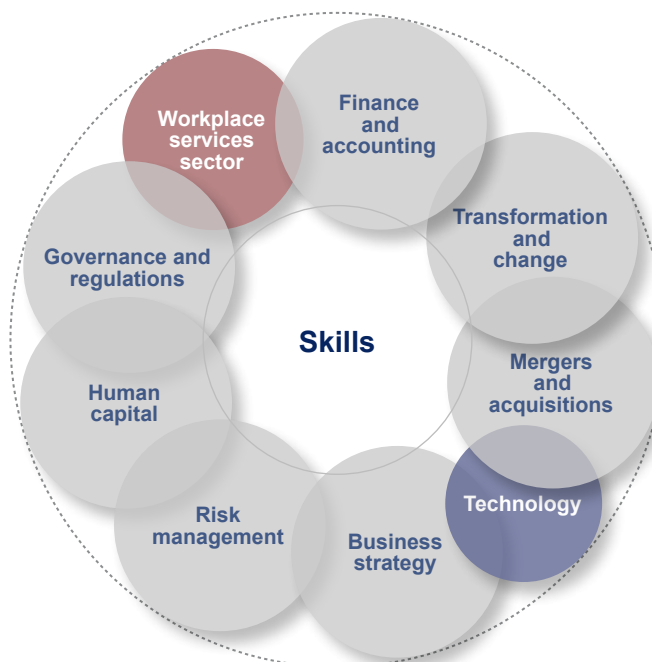
### Race

Black	5	46%
Indian	1	9%
White	4	36%
FN	1	9%

FN = Foreign Nationals


### Tenure – years


0 – 2	7	64%
3 – 5	2	18%
6 – 10	2	18%




The Transformation, Social and Ethics Committee advises and provides guidance to the Board on the effectiveness of management's efforts in respect of transformation, social and sustainable development-related matters. It also carries out its duties as prescribed in the Companies Act and reports on its discharge of its duties in this regard to the Board and stakeholders.

## Assessing the Board's performance

In accordance with the Board Charter, a formal evaluation of the Board and its committees is conducted every second year. Accordingly, the Board performance evaluation will be undertaken in FY2021.  <sup>9</sup>



The Nominations Committee is responsible for ensuring the composition of the Board meets the ability to execute the strategy set by the Board through ethical and effective leadership. The Board is comfortable with its diversity in the broader sense and that its composition reflects an appropriate mix of knowledge, skills, experience and independence. Adcorp has exceeded its racial diversity target of 50% by 11% with 61% diversity. However, this is slightly lower than the 79% in the prior year.  <sup>9</sup>

## Board committees

The Adcorp Board committees report quarterly to the Board on their statutory duties and Board-assigned responsibilities. Their responsibilities are set out in their terms of reference, which are regularly reviewed and are available from the Company Secretary. Information on the Board of Directors and their committee memberships are included in this report on pages 24 to 27. 

## Audit and Risk Committee

Members of the Audit and Risk Committee are independent non-executive directors elected by the shareholders at the annual general meeting – see page 158. The Committee's report is available on pages 75 to 77 of the annual financial statements. Key accountability, monitoring and oversight responsibilities delegated to the Committee by the Board include:

- Accuracy and transparency of the Group's financial reporting.
- Ensuring the appropriateness of financial reporting procedures and their application.
- Risk governance.
- IT governance.
- Internal and external audit oversight.   <sup>5; 7; 12; 15</sup>

## Remuneration Committee

Members of the Remuneration Committee are all non-executive directors with the majority of the non-executives being independent. The remuneration and implementation reviews are available on pages 34 to 41 of this report. The Remuneration Committee is responsible for:

- Ensuring transparent, accurate and complete remuneration disclosure.
- Ensuring the principles, design and implementation of remuneration for senior leadership within the Adcorp Group is aligned with fair, responsible remuneration and best practice remuneration governance.
- Annually reviewing the Group remuneration policy for senior leadership within Adcorp together with the related implementation report, tabling them for a non-binding vote at the annual general meeting and taking feedback from shareholders in this regard.
- Approval and oversight of all short-term and long-term incentive schemes including performance metrics, their weighting and a description of the target values.   <sup>14</sup>

## Nominations Committee

Members of the Nominations Committee are all non-executive directors, however, with the reclassification of directors and additional appointments to the Committee, two directors are independent and three are non-executive directors. The Nominations Committee is responsible for:

- Monitoring executive talent management and succession planning.
- Identifying suitable Board members and monitoring the composition of the Board and its committees.
- Overseeing a formal induction programme for new directors and a programme of appropriate development for all directors and monitors their performance.
- Ensuring directors are regularly briefed on the risks, laws, compliance requirements and overall environment in which the Group operates.
- Evaluating a director's performance prior to their nomination for reappointment to the Committee.
- Oversight of the evaluation programme for the Board and its committees, and the assessment of the competence and experience of the Company Secretary.  <sup>7</sup>

## Human Capital Committee

The Board has approved the constitution of a Human Capital Committee which will be a combination of the current Nominations and Remuneration Committees. The Chair of the Remuneration Committee will become the Chair of the Human Capital Committee, while the Chairman of the Board will still chair Board nomination and composition matters as a sub-set of the Human Capital Committee.

The role of the Human Capital Committee is to assist the Board with the following:

- Ensure the Board has the appropriate composition for it to execute its duties effectively including the establishment of a formal process for the appointment of directors.
- Identify suitable members for the role of CEO, formalising the appointment of executive managers, and considering the performance of the executive team.
- Ensure formal succession plans for the Board, CEO and executive management are in place and oversee the development of identified successors through continuous talent management.
- Ensure the principles, design and implementation of remuneration for all staff within the Adcorp Group are aligned with best practice and the reward philosophy regarding the governance of remuneration.
- Monitor the health of the organisation including ensuring an engaged workforce and cultural transformation.   <sup>7; 8; 9; 14</sup>


## Transformation, Social and Ethics Committee

Members are all non-executive directors, with two members being independent – see page 42. The Committee's report is available on pages 42 and 43 of this integrated annual report.



## Effective leadership through good governance continued


The Transformation, Social and Ethics Committee is responsible for meeting its statutory duties in terms of Regulation 43 of the Companies Act, and monitoring and reviewing Adcorp's performance as a responsible corporate citizen, which includes oversight and review of the Group's standing with regard to:

- Ethical matters in Adcorp and its standing regarding the Organisation for Economic Cooperation and Development (OECD) recommendations regarding corruption.
- The United Nations Global Compact (UNGC).
- The Employment Equity Act.
- The Broad-Based Black Economic Empowerment (B-BBEE) Act.
- Its transformation strategies, objectives and targets including procurement spend, enterprise development and socio-economic development.
- Its human resource policies, practice and procedures.
- Adcorp's approach to the safety and health of its people, the environment and the communities in which it operates.
- The sustainable development of the business.  2; 3; 13; 16

### Investment Committee

Members of the Committee include an independent non-executive director, non-executive directors and executive directors.

The Investment Committee is responsible for:

- Considering and evaluating investment and capital allocation decisions.
- Applying the approvals framework to all investment decisions and advising the Board accordingly.
- Ensuring appropriate due diligence procedures are followed when Adcorp invests, acquires or disposes of assets.
- Satisfying itself that the Group's project and investment valuation guidelines and other procedures for the allocation of capital are consistently and properly applied and are in line with the Company's overall strategy.
- Funding-related matters.
- Periodically reviewing all investment-related activities.  8

### Board and Committee activities in FY2020 and their focus areas for FY2021 in addition to their mandate as set out in the respective terms of reference.

#### What kept the Board busy this year

Investigated the root causes for the underperformance of the Group and deliberated on the required corrective action.

Sourcing a CEO with extensive experience in undertaking successful turnaround strategies.

Overseeing the transformation of the Group's culture into one that is collaborative, transparent, empowering and innovative.

Receiving reports on the BEE status and prospective schemes to improve black female ownership in the business.

Enhancing governance through ensuring the right mix and skills are represented in each Board Committee and at the senior management levels in the organisation.

Conducting a strategy review into each of the strategic pillars of the Adcorp Group.

The Board received training on the amended JSE Listings Requirements.

#### What kept our Audit and Risk Committee busy this year

Monitoring progress in terms of the Group's financial roadmap.

Receiving and discussing reports from internal audit and monitoring the risks and compliance within the business.

Ensuring appropriate governance and oversight of the Group's IT transformation process.

#### What will keep the Board busy in FY2021

Overseeing the turnaround of the Adcorp Group and setting a strategy for the Group that is in line with the new normal in a COVID-19 environment.

Overseeing the improvement of the BEE status of the Group and implementing a scheme that enhances black female ownership.

Ensuring the budget is approved in line with the strategy set for the Group.

#### What will keep the Audit and Risk Committee busy in FY2021

Continuing to monitor progress of the Group's financial roadmap and approving any amendments necessitated by the turnaround strategy.

Monitoring actions taken to mitigate the risks of COVID-19 on the business and its stakeholders.

**What kept the Remuneration Committee busy this year**

Talent management and retention strategies. Ongoing engagement with shareholders on implementation of the remuneration policy.

Measuring short-term incentive schemes for FY2019, setting metrics for FY2020 and approval of the allocation of long-term incentives.

Enhancing the remuneration policy to ensure bonus payments were at the discretion of the Committee.

**What kept the Nominations Committee busy this year**

Sourcing and inducting new non-executive and the CEO.

Monitoring the composition of the Board and its committees.

Monitoring performance against the broad diversity targets.

**What kept the Investment Committee busy this year**

Evaluating any potential investment opportunities that would add to the value of the Adcorp brand and the long-term sustainability of the Group.

Ensuring that the required regulatory and commercial procedures are followed for any investments the Group makes.

Monitoring the valuation, capital structure and the weighted average cost of capital of the Group and reporting the results to the Board.

**What will keep the Remuneration Committee busy in FY2021**

Continue to review the Adcorp Group's remuneration policy as the impact, trends and effects of the COVID-19 pandemic become clearer and review input and feedback from shareholders.

Progressing the alignment of the Adcorp talent management process with the Group's strategic imperatives and incorporating this into the revised remuneration policy.

Aligning the remuneration structures and levels to ensure that the Adcorp Group can remain competitive in its industry and in the broader economic context.

Evaluation of the malus and clawback clauses in the remuneration policy.

**What will keep the Nominations Committee busy in FY2021**

Sourcing of a CFO who can support the CEO in the turnaround of Adcorp.

Review of the Committee membership and mandates.

**What will keep the Investment Committee busy in FY2021**

Overseeing the disposal of certain divisions within the Group as driven by the right-sizing initiative.

Evaluating any potential investments that would add value to the Adcorp Group.

Assessing commensurate employee share schemes or BEE transactions that are tabled for assessment by the Committee.

# Remuneration review

**“Adcorp’s remuneration philosophy aligns executive remuneration with the creation of shareholder value.”**

**Sam Sithole**  
Chairman of the  
Remuneration Committee




## PART 1: BACKGROUND STATEMENT

Adcorp recognises the critical role of remuneration in attracting, retaining and incentivising people with the required skill sets and experience. The year ended 29 February 2020 was the second full year of implementation where the Group’s remuneration philosophy aligns performance with sustainable value creation. In terms of the remuneration philosophy annual incentives are dependent on the outcomes of the scorecard that include financial and individual strategic targets as reviewed and approved each year by the Remuneration Committee (Remco or the Committee). As discussed in the Executive Report on page 20, the Group’s performance has been under pressure affecting the remuneration received by the executive management team in line with the negative impact on shareholder value during the reporting period.



Due to the poor performance of the Group, various right-sizing and restructuring initiatives were introduced to ensure that the employment costs across the Group are reduced. As a result of COVID-19 further restructuring and reduction in employment costs are currently underway.

Adcorp continually enhances the remuneration policy and framework in line with the King IV™ principles to remunerate fairly, responsibly and transparently. Remco has monitored the implementation of the Group remuneration policy and framework and is of the view that there were no deviations from the policy in the year under review.  <sup>14</sup>


This Remuneration Report is structured in line with King IV™ principles and includes:

- The remuneration philosophy and policy;
- An implementation report; and
- A section on non-executive director remuneration.

## Remuneration governance

Adcorp’s approach to remuneration for FY2020 was implemented in line with the strategic priorities set at the start of the year:

- Build a strong business that is focused on leveraging our core business;
- Ensure that the business is lean and agile;
- Strengthen the brand; and
- Embed a high-performance culture built on sound governance principles.

Remco supports the Board in the monitoring and oversight of remuneration-related matters of the Board, Group executive management and senior leadership in the business in line with the remuneration policy. The Committee’s mandate includes ensuring:  <sup>14</sup>

- The remuneration philosophy supports the execution of the Group’s strategy;
- There is an appropriate balance of short-term and long-term objectives; and
- Executive remuneration practices are fair and responsible.

Remco has discharged its duties as set out in a formal terms of reference that is regularly reviewed by the Committee and recommended to the Board for approval. The following key matters were addressed during the year:

- Measurement of the performance of the executive management team in terms of the short-term incentive (STI) scheme for FY2020;
- Approval of the financial and non-financial metrics of the scorecard for the STIs for the executive management team for FY2020;
- Enhancement of the remuneration policy to ensure any bonus payments were at the discretion of the Committee and subject to the performance of the Group in addition to other improvements in line with best practice and governance standards;
- Approval of the allocation of the STIs as well as the long-term incentive (LTI) share allocations for FY2020;

- Recommendation of the non-executive directors' fees considering external benchmarking;
- Overseeing the negotiation of the remuneration packages of the exiting executive directors; and
- Revising the remuneration policy for the Group ensuring that the malus and clawback clauses were included and remain relevant.

Areas of focus for FY2021 include:

- Continuing to review the Adcorp Group's remuneration policy as the impact, trends and effects of the COVID-19 pandemic become clearer;
- Adjusting the remuneration policy as may be required in this volatile economic environment in line with the strategic turnaround initiatives that will be put in place during the current financial year;
- Progressing the alignment of the Adcorp talent management process with the Group's strategic imperatives and incorporating this into the revised remuneration policy;
- Aligning the remuneration structures and levels to ensure that the Adcorp Group can remain competitive in its industry and in the broader economic context;
- Monitoring the implementation of the remuneration policy and its amendments and the commensurate effects on performance within the Group;
- Continuing to ensure that the remuneration policy of the Adcorp Group attracts the best talent;
- Monitoring and reviewing the financial and non-financial metrics included in the scorecard of the Adcorp Group;
- Assessment and approval of the STIs and LTIs to be awarded for FY2021;
- Negotiation of the remuneration packages of the new executive directors;
- Review and recommendation of the non-executive directors' fees for approval by shareholders; and
- Evaluation of the malus and clawback clauses in the remuneration policy.

## Human Capital Committee

The Board has approved the constitution of a Human Capital Committee which will be a combination of the current Nominations and Remuneration Committees. The Chair of the Remuneration Committee will become the Chair of the Human Capital Committee, while the Chairman of the Board will still chair board nomination and composition matters as a sub-set of the Human Capital Committee.

The role of the Human Capital Committee is to assist the Board with the following:

- Ensure the Board has the appropriate composition for it to execute its duties effectively including the establishment of a formal process for the appointment of directors.
- Identify suitable members for the role of CEO, formalising the appointment of executive managers, and considering the performance of the executive team.
- Ensure formal succession plans for the Board, CEO and executive management are in place and oversee the development of identified successors through continuous talent management.
- Ensure the principles, design and implementation of remuneration for all staff within the Adcorp Group are aligned

with best practice and the reward philosophy regarding remuneration governance

- Monitor the health of the organisation including ensuring an engaged workforce and cultural transformation.

## Changes to the executive management team

As set out in the governance report on page 29 there have been several changes in the executive management team during the past year as the Board adjusts to ensure that Adcorp remains a sustainable entity.   <sup>10</sup>


Innocent Dutiro resigned as CEO in October 2019 and Cheryl-Jane Kujenga stepped down from her role as CFO in May 2020. Innocent and Cheryl-Jane's packages included their notice period and annual leave balances. In addition, Innocent Dutiro was paid a prorated cash settlement amount for his sign-on shares to the value of R11 660 848. Cheryl-Jane Kujenga was paid a prorated cash settlement amount for her sign-on shares to the value of R1 241 444.

Dennis Grant who was acting Managing Executive for Australia left the Group in December 2019 and was not replaced while the Group's leadership team assessed its strategic intent in Australia, culminating in a decision to exit this geography. Vikela Rankin, the Chief Commercial Officer, resigned in November 2019 and Ursula Fear resigned as Managing Executive for Training effective May 2020.

Phil Roux was appointed as Adcorp CEO post year-end, in April 2020. He brings to the Group extensive experience in leading successful turnaround initiatives and his remuneration package is aligned to the successful transformation of Adcorp's performance. Given that Phil Roux joined the Group specifically to turn around the Group's performance over the next two years, his package is structured differently to our usual LTI considerations. The key features of his employment contract include:

- A contract for two years, with an option to renew for another year. Remco has put in place key performance metrics that are focused on outcomes, which means the incentives can vest early if outcomes are achieved earlier.
- Sign-on cash bonus of R7 500 000.
- LTI shares with a two-year vesting profile (as opposed to three years). This is also aligned to performance metrics outcomes, which might result in earlier vesting.
- STI at 120% of total cost to company (CTC).

## Succession planning

The Adcorp Nomination Committee addresses the Board succession plans at its meetings. Board succession remains a key focus area for Adcorp and we will continue to review the plans, applying best practice in line with the King IV™ guidelines. During FY2021 we will extend this focus on succession planning to the top two levels of leadership. This will ensure that the Group's succession plans remain relevant and can easily be implemented without any significant delay.  <sup>7</sup>

## Shareholder engagement and voting

The non-binding advisory vote by shareholders on Adcorp's remuneration policy and implementation report at the annual general meeting (AGM) held on 30 July 2019 resulted in a vote in favour of 91.35% (100% by B ordinary shareholders) and 99.85% (100% by B ordinary shareholders), respectively.

## Remuneration review continued

Adcorp values engagement with shareholders on matters relating to remuneration and encourages shareholders to share their views with the Chairman of Remco in this regard. In line with the requirements of King IV™, Adcorp will engage with dissenting shareholders should 25% or more of the shareholders vote against either or both the remuneration policy and the implementation report. This process is aimed at determining shareholder concerns and the Board will take reasonable measures to address the matters raised.

The implementation report is set out below to enable shareholders to understand the Adcorp remuneration policy and how it has been applied to the executive management team in FY2020. The remuneration policy also delineates the metrics used for both STI and LTI performance measures.

The Committee continues to refine the remuneration policy, disclosure of activities and the implementation of the remuneration policy. The executive directors engage regularly with shareholders in an open and transparent manner on the Group's performance.

We trust that the Remuneration Report provides clarity on the matters relating to remuneration and we look forward to engaging in this regard.

**Sam Sithole**

*Chairman of the Remuneration Committee*

30 July 2020

### PART 2: THE ADCORP REMUNERATION PHILOSOPHY AND POLICY

Adcorp's remuneration policy, framework and principles are linked to sustainable value creation. This means that remuneration must be fair and responsible, bearing the long-term interests of the Group in mind. This Remuneration Report provides an outline of the application of those policies to the Group executive management team.

### Remuneration philosophy

The Group's remuneration philosophy is an integral part of our employment value proposition (EVP) and enables the achievement of Adcorp's strategic objectives. It ensures the fair, equitable and consistent application of the Group's remuneration policies and practices, guided by King IV™ Principle 14 and aims to:

- Set remuneration frameworks that are competitive thus enabling the attraction and retention of talented high-performing employees;
- Align executive management's remuneration with the achievement of short and long-term strategic and financial performance targets;
- Enhance consistency and fairness; and
- Provide continuous development opportunities and wellness.



### Remuneration structure and design

Total guaranteed package (TGP) is computed using a CTC methodology. The Group adopted the Paterson grading system and employees are remunerated according to their job grades ensuring fairness and consistency.

All permanent employees participate in the STI scheme appropriate to their level and role in the Group. If specified minimum thresholds are not achieved STI payments are not awarded. Group executive and operating segment senior managers participate in the LTIs.

LTIs are awarded as performance shares with the aim of retaining and rewarding executives and senior managers that are key to the delivery of the Group's long-term strategy. Performance shares vest, subject to the achievement of performance conditions, over a three-year performance period and are settled in equity. The key criterion for the performance conditions is economic value added (EVA), which seeks to reward for performance that exceeds the cost of capital for the Group.



The key elements of the remuneration structure for the Group executive management team which were applied in FY2020 are shown in the table below:

	<b>Total Guaranteed Package ("TGP")</b>	<b>Short-term incentives</b>	<b>Long-term incentives</b>	<b>Share Ownership</b>
<b>CEO</b>	Market-based in line with remuneration policy	100% of TGP	100% of TGP	100% of TGP
<b>CFO</b>	Market-based in line with remuneration policy	75% of TGP	75% of TGP	75% of TGP
<b>Group executives</b>	Market-based in line with remuneration policy	50 – 60% of TGP	50 – 60% of TGP	50 – 60% of TGP
<b>Description</b>	Core component of remuneration. It is set to reflect the market value of the role within a 50th percentile. Benchmarking of TGP for executive management takes place every three years. The TGP also includes benefits such as retirement/provident fund, death and disability cover, medical aid, Group personal accident cover and where applicable, car allowance.	Encourage achievement of agreed set and stretch targets at a Group, operating segment and business unit level. Targets are both financial and non-financial and based on a three-year view of the Group. These targets are broken down into shorter-term targets and rewarded annually.	Encourage sustainable decision making that drives long-term returns for shareholders and other key stakeholders. Targets are based on a three-year view of the Group.	The executive management team is required to hold fully vested and unencumbered shares. This policy came into effect in FY2018. Members of the executive management team will have five years from date of appointment into the role, or five years from implementation of the policy, to build up to the required level of holdings. The Committee is assessing whether this policy provides market-competitive remuneration and therefore retains discretion on how to operate this policy and may make exceptions and allowances as it sees fit.
<b>Purpose and link to strategy</b>	Attraction and retention of key staff	Creating a high-performing culture	Alignment of key employee interests with those of shareholders and retention	Alignment of key employee interests with those of shareholders and retention
<b>Delivery mechanism</b>	Monthly cash payments	Annual cash payment	Unvested shares	N/A
<b>Performance period</b>	Reviewed annually every March and adjusted in line with inflation, affordability, market surveys together with Company and individual performance. Average increases of 5% have been awarded effective 1 March 2020.	Aligned annually with the financial year i.e. 1 March to 28 February	Three-year performance-based vesting period from date of award	Five years from date of appointment or implementation of policy

# Remuneration review continued

## Short-term incentive performance metrics

The table below shows the performance measures and approach to the targets set for FY2020:

Metric – FY2020	Why it was chosen	How targets are set
<b>EBITDA</b>	Key indicator of the underlying performance of the Group.	Set annually for a 12-month period aligned to the financial period. These annual targets are considered in the context of the required three to five-year strategic goals.
<b>EBITDA margin</b>	Reflects the impact of cost savings, business optimisation and key account management initiatives.	Set annually for a 12-month period aligned to the financial period. These annual targets are considered in the context of the required three to five-year strategic goals.
<b>DSO and cash conversion</b>	Drives cash availability and efficiency in the operating cycle.	Set annually based on anticipated growth in revenue and cash requirements of the Group.
<b>NPAT</b>	Drives growth in EPS and HEPS.	Set annually for a 12-month period aligned to the financial period. These annual targets are considered in the context of the required three to five-year strategic goals.
<b>Strategic focus areas</b>	These are quantitative and qualitative performance areas that are required to be executed in FY2020 in order to meet the strategic goals of the Group.	Targets are tailored at an individual level. In FY2020 these were focused on delivering on the effective transition into the new business model and they will remain focused on implementing the turnaround initiatives. This will require delivery of a significant portion of the business optimisation initiatives and acceleration of the growth strategy. The Committee acknowledges the investment required to achieve this in FY2020 and sees this as a key enabler for achievement of the FY2021 and FY2022 targets.

## Long-term incentive performance metrics

The table below shows the metrics for the share awards for FY2020:

LTI metric	Why it was chosen	Performance requirements for vesting	How targets are calculated
<b>ROIC</b>	Key indicator of the effective use of capital.	No award for ROIC below or equal to WACC.  50% awarded where ROIC exceeds WACC by 2%.  100% awarded where ROIC exceeds WACC by 4%.	Calculated on a linear scale, as the three-year average of the excess of the actual annual ROIC achieved each year, compared to the WACC of each year as determined by the Investment Committee in February of each year. The ROIC is based on profit before tax.
<b>HEPS</b>	Measures the growth in the Group's core profitability.	No award where HEPS growth is zero or below.  50% awarded where HEPS growth is 10%.  100% awarded where HEPS growth is 20%.	Calculated on a linear scale as the three-year average HEPS growth.

LTIs in the form of share-based awards granted under the Group's share plan will be determined based on the relevant plan rules. The default treatment is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, disability, retirement or other circumstances at the discretion of the Committee "good leaver" (as defined in the share policy) status can be applied.

For good leavers, the awards are reduced pro rata to reflect the proportion of the performance period actually served. The Committee has the discretion to disapply the application of performance conditions and/or time proration if it considers it

appropriate to do so. However, it is envisaged that this would only be applied in exceptional circumstances.

In determining whether an Executive should be treated as a good leaver or not, Remco will take into account the performance of the individual and the reasons for their departure.

### Executive directors' employment contracts

The employment contracts for the CEO, CFO and Group executive management team provide for a three-month notice period by either party. The retirement age for executive directors is 65.

## Prescribed officers

The prescribed officers of Adcorp in terms of the Companies Act include the CEO, CFO and Portfolio Management Executives. Remuneration of the prescribed officers is disclosed in the remuneration implementation report and the annual financial statements.

## Non-executive directors

### Appointment of executive and non-executive directors

Both executive and non-executive directors are subject to ratification by shareholders at the first AGM following their appointment and are then required to submit their resignation by rotation in accordance with Adcorp's memorandum of incorporation (MOI).

The appointment of a non-executive director may be terminated without compensation if that director is not re-elected by shareholders, or otherwise in accordance with the Company's MOI.

Non-executive directors are appointed to the Board based on their ability to contribute competence, insight and experience appropriate to assisting the Group to set and achieve its objectives. Consequently, fees are set at levels to attract and retain the calibre of director necessary to contribute to a highly effective Board. Non-executive directors receive fees for their services as directors and for services provided as members of Board Committees. They do not receive STIs, nor do they participate in LTI schemes.


### Non-executive director fees

Adcorp Board fees comprise both a retainer fee and an attendance fee. The level of fees paid to non-executive directors is based on current market practice and similar comparators. The total remuneration payable to non-executive directors requires approval of shareholders at the AGM. The last approval by shareholders was obtained at the AGM of shareholders on 30 July 2019.

During the current financial year, a report was requested from an independent service provider to compare Adcorp's non-executive directors' fees for Board and Committee members to the fees disclosed by the listed comparator group in the public domain. The comparator group comprised eight companies with a similar profile to that of Adcorp from an investor perspective. The basis for determining the comparator group was on the following elements:

- Total assets.
- Market capitalisation.
- Turnover.
- Profits before tax.
- Number of employees.

This analysis resulted in changes to directors' fees for FY2020 as approved by shareholders at the AGM held on 30 July 2019. There is no increase proposed to the Board fees for FY2021 and approval of the Board fees will be tabled for shareholder approval at the upcoming AGM. In addition, the Board agreed to a 20% reduction in Board fees for a three-month period from May 2020 to July 2020 due to the impact of COVID-19.

Total emoluments to non-executive directors for FY2020 are set out in the table on page 41 and the proposed fees for FY2021 payable from the date of the AGM are included in the notice to the AGM on page 159. 

## Directors' loans and interests in contracts

Directors have no loans with the Group companies. A register detailing directors and officers personal financial interest is available for inspection at the Group's registered address.

## Fair and responsible remuneration

Adcorp's approach to fair and responsible remuneration is in line with principle 14 of King IV™ that includes:

- Fair and responsible pay, free from discrimination, self-interest, prejudice or favouritism;
- Addresses inequality and ensures equal pay for equal work;
- Achievement of employment equity targets; and
- Reward performance and incentivise future sustainability and value creation.


Adcorp does not:

- Pay for non-performance;
- Reprice share options; or
- Guarantee bonuses.

The Remuneration Committee works together with the Transformation, Social and Ethics Committee to embed principles that govern the Group's approvals of fair pay across all levels of employees as well as our assignee and contingent workforce as discussed below.  <sup>14</sup>

### Fair and responsible remuneration of permanent employees

At Adcorp we believe that fair and responsible remuneration ensures that our remuneration is both externally competitive and internally equitable. The Remuneration Committee monitors internal pay gaps across Adcorp to ensure remuneration is fair and responsible in the context of overall employee remuneration.

The Group, which employs job grading and pay bands for different jobs, generally pays TGP in the middle quartile of the market in order to remain competitive with the TGP for comparable roles in companies of a similar complexity and size. This enables the Group to attract and retain top talent, especially in critical or strategic areas.  <sup>14</sup>

The Group uses external parity and benchmarking. During the year 21st Century and PwC REMchannel were used to guide what annual percentage increases should be awarded.

Adcorp conducts regular salary reviews, which take into consideration changes in the scope and roles performed by individuals, changes required to meet the requirement of the remuneration policy and the market competitiveness of the salaries and benefits provided by the Group. Salaries are also adjusted to account for the results of benchmarking and individual performance and experience.

Consistent job evaluation and grading of roles ensures equity of reward and facilitates both our transformation objectives and mobility within the Group.

### Fair and responsible remuneration for assignees and contractors


Adcorp's commitment to our assignee workforce is to ensure that they receive equitable and fair pay at client sites.

The Group advocates equal treatment policies for all its assignees and has reinforced this through products available within its

## Remuneration review continued

Financial Services business that deal responsibly with death, wellness and long-term savings. Currently, within the temporary staff base and outside of those staff already provided for by industry-specific bargaining councils, several assignees benefit from affordable additional employee benefits such as funeral cover, income protection and provident fund benefits.

FY2019 witnessed the promulgation of the National Minimum Wage Act. Although in excess of 80% of Adcorp's temporary employment services staff earned more than the subsequently prescribed minimum wage, there were industry sectors that historically had a lower base rate wage. The Group adopted a zero tolerance approach to non-adherence to the prescribed minimum wage rates and is very pleased to note that as at the date of promulgation, no staff were paid or will subsequently be paid, beneath the prescribed legislative values.

It is pleasing to note that most of Adcorp's clients share a great sense of social responsibility and we will continue to engage with our clients and relevant stakeholders on the ongoing discourse related to minimum wage versus living wage.  <sup>14</sup>

### PART 3: IMPLEMENTATION REPORT 2020

The Committee confirms that remuneration has been implemented according to the remuneration policy during the reporting period.

The table below provides the actual remuneration for FY2020 and the related actual and expected cash outflow.

	FY2020 remuneration (rand value)				Long-term incentive (number of shares)		
	Annual CTC	Separation cost	Short-term incentive	Total payment	LTI allocation FY2020	LTI payable in next 12 months	LTI payable beyond 12 months
I Dutiro*	6 320 907	11 660 849	—	17 981 756	272 080	Resigned	—
CJ Kujenga*	4 076 229	1 241 444	—	5 317 673	125 182	Resigned	—
R de Grooth	2 412 012	—	—	2 412 012	76 135	Vested shares did not meet performance criteria	532 329
K Vittee	1 901 325	—	—	1 901 325	62 262	Vested shares did not meet performance criteria	630 037
U Fear	2 244 153	—	—	2 244 153	48 890	Resigned	—
T Sadik**	980 908	—	—	980 908	—	—	—
T Fowler	2 198 956	—	1 186 875	3 385 831	52 751	No shares vesting	—

\* Annual CTC for exiting executive directors includes their notice period and annual leave balances.

\*\* T Sadik was interim CFO from 18 November 2019 to 30 April 2020.


### Performance outcomes

The Adcorp Group has underperformed for the year therefore, the majority of the executive management team did not perform as expected against the scorecard approved by the Committee. Not all STI bonuses will be paid to the Group executives or operating segment senior managers except for the Adcorp Financial Services executive team who have exceeded their annual budget by R5 000 000.

### Remuneration for executive directors and prescribed officers in FY2020

King IV™ requires disclosure of the potential consequences on the forward-looking total remuneration for executive directors and prescribed officers on a total, single figure basis based on achievement of minimum, on-target and stretch performance outcomes.

The tables that follow outline the on-target versus stretch weightings of the Group executive management team and then provide the proportions of the pay mix based on minimum, on-target and stretch targets. The pay mix is designed to reward the achievement of short-term strategic financial and non-financial objectives through STIs and to reward executives and senior managers for their performance with regard to the delivery of the Group's long-term strategy.

Remco has designed the remuneration mix for executive managers in a manner that avoids overdependence on variable stretch and variable long-term components. This results in a high requirement for on-target performance and discourages any excessive risk-taking behaviours.  <sup>14</sup>

### STI framework for FY2021

The Adcorp People Philosophy is a governance framework for all aspects of decisions relating to its employees. It is within this philosophy that we commit to treating our employees fairly and respectfully at all stages of the employee life-cycle, including fair remuneration practices. Adcorp has a remuneration philosophy that seeks to align the corporate objectives with the commitment and performance of individuals and reward them accordingly. To this end, remuneration structures need to recognise individual and team contribution to the achievement of such objectives and ensure that employees are fairly and responsibly remunerated.

The framework in respect of the STI scorecard for FY2021 for the executive directors and prescribed officers is explained in more detail below.

The table below indicates the financial metrics included in the STI performance scorecards for the Group's executive directors and prescribed officers:

	Group Revenue	Group Margin	Group Operating Profit	Leverage	Interest Cover	Group DSO	Total financial metrics – Group
Weighting	10%	10%	40%	5%	5%	10%	80%

All the financial metrics will be based on Group financial targets which include cost savings targets. The following strategic targets are also included in the STI scorecards:

- Divestitures – includes the disposal of non-core assets and exiting Australia.
- B-BBEE – the Portfolio Managing Executives must ensure at least a level 2 is achieved in their entity level scorecards.
- Effective shared services centre – CEO and central executive team to ensure a lean effective centre and employee cost reductions are achieved.
- Technology Refresh Project – each executive is responsible for the successful launch of the relevant piece of the enterprise system project and ensure optimal utilisation by their departments.
- Strategy development – overarching growth strategy is developed and partially implemented.

Organisational development – ensure that all business unit team structures are lean and agile, embed a performance management culture across the Group that pays for performance and introduce a talent management and succession planning framework across the Group for the first two levels of leadership.

### Long-term incentive (LTI) performance metrics

The table below shows the metrics for the share awards for FY2021:

LTI Metric	Why it was chosen	Performance requirements for vesting	How targets are calculated
ROIC	Key indicator of the effective use of capital.	No award for ROIC below or equal to WACC. 50% awarded where ROIC exceeds WACC by 2%. 100% awarded where ROIC exceeds WACC by 4%.	Calculated on a linear scale, as the three-year average of the excess of the actual annual ROIC achieved each year, compared to the WACC of each year as determined by the Investment Committee in February of each year. The ROIC is based on profit before tax.
HEPS	Measures the growth in the Group's core profitability.	No award where HEPS growth is zero or below. 50% awarded where HEPS growth is CPI + 3%. 100% awarded where HEPS growth is CPI + 6%.	Calculated on a linear scale as the three-year average HEPS growth.

### Non-executive directors' fees

Details of the actual fees paid to non-executive directors during the year are as follows:

Non-executive director	Director's fees (ZAR)
GT Serohe	927 000
P Mnganga	361 000
GP Dingaan	406 000
H Singh	607 000
SN Mabaso-Koyana	1 059 000
C Maswanganyi	349 000
TP Moeketsi (resigned 6 June 2019)	184 000
ME Mthunzi (resigned 6 June 2019)	99 000
FS Mufamadi	368 000
S Sithole	441 000
MW Spicer	636 000
MM Nkosi (appointed 6 June 2019, previously alternative director from 19 October 2018)	455 000
R van Dijk (appointed 6 June 2019)	355 000
C Smith	295 000



# Report of the Transformation, Social and Ethics Committee

**“During the year under review the Transformation, Social and Ethics Committee further intensified the migration from King III to King IV™ by embedding stakeholder governance, ethics management and corporate citizenship. In addition to this, the committee members commenced the process of crafting a refreshed B-BBEE model that ensures that all beneficiaries derive sustainable economic benefits.”**

**Dr Phumla Mnganga**


*Chairman of the*

*Transformation, Social and Ethics Committee*



## Introduction

The Transformation, Social and Ethics Committee's (TSEC or the Committee) has an independent role and its responsibilities are set out in section 72(4) of the Companies Act. The Committee's mandate is elaborated in its approved terms of reference (TOR), which are aligned to the Group's statutory and other responsibilities, with additional responsibilities as assigned by the Board. The TOR is reviewed annually to ensure its relevance and appropriateness.


Adcorp's TSEC supports the Board in overseeing the Group's activities in terms of legislation, regulation and codes of best practice relating to the social, ethics, transformation, employment, health and safety, and environmental activities of the Group to enhance its value proposition in the human capital domain.  <sup>8</sup>

## Roles and responsibilities of the Committee

The responsibilities of the Committee include:

- Oversight of Adcorp's transformation and employment equity performance against approved plans, including the Group's performance in relation to the Employment Equity Act and the Broad-Based Black Economic Empowerment Act.
- Reporting and ensuring that Adcorp has a productive relationship with both primary and secondary stakeholders.
- Ongoing monitoring and oversight of ethics and ethical practices within the Group to ensure that all stakeholders of the Company operate within a coherent ethics framework.
- Monitoring the Group's engagement with its clients.
- Reviewing and monitoring compliance and application of legislation and practices with regard to the environment, health, public safety and well-being of the Group's employees, assignees and candidates.
- Ensuring the policies and practices relevant to its areas of responsibility are adequately and appropriately formulated.
- Monitoring the Group's performance as a good corporate citizen, which includes its stakeholder relations and, where

possible, exceeding its social commitments, with an enhanced focus on transformation as we operate within the realms of human capital.


- Reporting to stakeholders annually on matters relevant to the Committee.  <sup>1:3</sup>

## Composition and attendance

The Committee comprised the members as set out below during the reporting period and a brief description and curriculum vitae of each committee member is set out on pages 24 to 27. The Committee comprises four non-executive directors, two of whom are independent as listed below. Mncane Mthunzi was the Chairman of TSEC who resigned during the year and the Board appointed Phumla Mnganga as the new Chairman of the Committee. The Committee extends its gratitude to Mncane Mthunzi for his contribution over the years and welcomes Phumla Mnganga. 

The Committee comprises:


- P Mnganga Independent Non-Executive Director (Chairman)
- S Mufamadi Independent Non-Executive Director
- G Dingaan Non-Executive Director
- C Maswanganyi Non-Executive Director
- M Mthunzi Independent Non-Executive Director (Resigned 6 June 2019)

The CEO, CFO, Group Executive – Human Capital and members of senior management have standing invitations to the Committee meetings. The Committee met twice in alignment with the Committee TOR and the meeting attendance is set out on page 27. The agenda of these meetings is addressed under the key focus areas in section 3 below. 

## Key focus areas of the Committee

The Committee focused on the following areas during FY2020:

### 3.1 Policy reviews

During the financial year under review the following policies were updated:  <sup>10</sup>

#### 3.1.1 Code of Ethics

This Code, which provides a foundation for building and sustaining a strong ethical culture across Adcorp, was further amended to emphasise the respect for the individual, diversity and equality. Freedom of association and the prohibition against child labour were clearly articulated in the amended version.

#### 3.1.2 Supplier Code of Conduct

The Supplier Code of Conduct was updated to specify what Adcorp regards as morally or ethically acceptable behaviour from current and future vendors, suppliers, contractors, consultants, agents and other providers of goods and services. The ethical values, standards, principles, and guidelines which bind suppliers in their dealings with Adcorp was re-emphasised.

#### 3.1.3 Stakeholder Engagement Policy and Strategy

The stakeholder engagement policy that references the stakeholder engagement strategy and framework was updated and duly approved. The strategy outlines and defines the symbiotic working relationship with all the primary and secondary stakeholders of the Adcorp Group.

#### 3.1.4 Other

The enhancement of policies that the Group has in place to govern gifts, donations, sponsorship, hospitality, entertainment and expenses, received the required level of oversight and direction to ensure our ethical landscape remained intact.

### 3.2 Organisational ethics

The creation of an optimal ethical climate remained an imperative for the Committee. The impact of the increased levels of change and restructuring processes were continuously monitored to ensure the desired ethical behaviour in the Group remained paramount and that ethical lapses were duly addressed and rectified.

Where reports on any unethical behaviour were received through the tip-off line managed independently by Deloitte, management immediately evaluated the structures, policies and procedures Adcorp has in place in terms of addressing fraud and corruption. This proved to be an effective detective mechanism to combat fraud and corruption as it encouraged employees to report illegal action and ethical misconduct.

The Committee is further overseeing the drafting of a Board Code of Conduct.

### 3.3 Stakeholder relationships

The Committee confirmed its commitment to effective and transparent communication with key stakeholders and also acknowledged their ongoing responsibilities to these stakeholders during the period under review.

Key stakeholders have been defined under the Social and Relationship Capital section of this report on page 57, but these primarily comprise groups that are most likely to influence the delivery of the Group's strategy, i.e:

- Shareholders and providers of other capital;
- Employees and clients;

- Candidates;
- Government and other regulatory bodies; and
- Communities.


Recognising that effective stakeholder relationships are critical for sustainable value creation, the Committee monitored the quality of these relationships to ensure the needs, expectations and concerns of stakeholders were adequately managed by the Group.  <sup>16</sup>

### 3.4 Transformation

The Committee members actively participated in the Group's transformation programme not only to ensure optimal B-BBEE scores for the Group and operating entities, but also to drive sustainable transformation imperatives for the Group.

Progress on transformation in terms of compliance with the South African regulatory landscape through a mindful approach to true broad-based empowerment was continuously monitored and supported.

The Committee identified opportunities to improve the Group's B-BBEE scores and to highlight associated risk. The Group's current B-BBEE rating is at level 3. The Committee appointed a working group that is focusing on crafting a new architecture for a refreshed broad-based share scheme. Lastly, the Committee has promoted the investment into four new enterprise development initiatives which enabled young entrepreneurs to set up business operations at the Group's new head office site.

The Committee ensured the corporate social investment programme continued to focus on areas that supported the development and education of young people. It also actively monitored the performance in key sustainability areas including human rights, labour law compliance, key stakeholder relations, good corporate citizenship, maintaining our social licence to operate, its B-BBEE status and readiness to comply with the Protection of Personal Information Act.  <sup>3</sup>

### Outlook for the year ahead

Oversight over the process of managing the impact of COVID-19 is likely to be a dominant theme for the Committee in the year ahead. The Committee is confident that in addition to its statutory obligations it will be able to ensure that appropriate policies, procedures and protocols are implemented to safeguard the well-being of all the Group's stakeholders.

### Conclusion

As the Committee endeavours to embed an ethos of ethics, transformation and sustainability throughout the business, it will have the opportunity to expand its activities in a meaningful way to support the Group's aspiration to become a leading workplace solutions company and market leader in human capital and talent management.

Refer to the Value Creation section of this report for an amplification of the Committee's oversight and direction relating to the Group's human, social, natural, intellectual and financial capitals.

**Dr P Mnganga**

*Chairman of the Transformation, Social and Ethics Committee*

30 July 2020






# Value creation

# Intellectual capital



**The technology vision for 2020/2021 is to enable and transform our traditional workforce management businesses through the effective deployment of technologies that enable the core business processes and deliver robust and actionable data to the Group's leadership team and clients.**  <sup>12</sup>

Adcorp's intellectual capital includes the knowledge and competencies residing with our employees, our governance and leadership structures as well as the relationships we hold with all our various stakeholders. Our processes and systems are critical enablers to supporting the Group's clients and candidate base while also facilitating the delivery of the corporate strategy.

The Adcorp Group has over the past year experienced internal operational challenges in the form of leadership and organisational changes. Despite these challenges, the tapestry of organisational knowledge built over four decades endures and the business remains fundamentally sound. The Group has welcomed new leaders both at Board and executive management level who bring a new mix of skills and experience to revitalise performance and navigate the acceleration of workplace digitisation brought on by the COVID-19 pandemic.  <sup>7</sup>

## Technology transformation

In recent years, workplace management and the global staffing industry has experienced rapid adoption of innovative and disruptive technologies, new delivery models, as well as a number

of non-traditional approaches to client interactions. Growing trends in talent management include hiring for and developing agility, using big data/talent analytics to drive results, a move from traditional learning to micro-learning and finding the balance between humans and robotics in the workplace. As South Africa's largest workplace solutions provider, Adcorp's reach and depth of experience in the human capital sector requires that we remain at the forefront of these industry developments as we continue to support our clients in navigating the changing world of work.

In the past year, Adcorp finalised the blueprint technology architecture for the Group comprising software solutions to support all our resourcing and training operations as well as the functions which enable service delivery. The project has been formalised under the name Project Skyhawk. Project Skyhawk is a cornerstone of the broader organisational transformation and will support the digitisation of Group services, realise significant operational efficiencies and drive greater client and candidate engagement.

What are we solving for?	Workstream and selected technology	Outputs of improved technology systems implemented
Previous systems posed issues of: <ul style="list-style-type: none"> <li>• Non-standardisation;</li> <li>• Systems that were difficult to operate and were not enabling; and</li> <li>• Systems that were built on ageing technologies and required high levels of maintenance.</li> </ul>	New technology applications applied focused on the following workstreams: <ul style="list-style-type: none"> <li>• Recruitment and selection services;</li> <li>• Workforce scheduling;</li> <li>• Time and attendance management;</li> <li>• HR management;</li> <li>• Payroll processing;</li> <li>• Productivity management; and</li> <li>• Digital learning.</li> </ul>	The technology transformation will deliver: <ul style="list-style-type: none"> <li>• Standardised reporting;</li> <li>• Standardised processes;</li> <li>• Seamless collaboration;</li> <li>• Data accuracy;</li> <li>• Optimised processes;</li> <li>• Better governance and control;</li> <li>• Improved service delivery; and</li> <li>• Increased profitability.</li> </ul>

Project Skyhawk will enable the Group to operate through a simplified business model which will deliver efficiencies that can be passed on to clients. The revised technology strategy articulates a desire to leverage the benefits of standardisation and deliver more unified services across business units which require greater degrees of integration.

Shifting market demands, evolving regulatory complexities and rapid digital advancements are transforming the way we work.

The COVID-19 pandemic has accelerated this shift, propelling all industries into the digital world of work. As an industry leader, with an intellectual wealth of experience in recruiting people into jobs and helping businesses to access the skills they need to grow their companies, we are well placed to drive this evolutionary process. To this end, in the year ahead we will be launching a series of initiatives designed to build our capabilities in providing skills and services in support of our clients' digital programmes.

SDGs impacted:





# Human capital

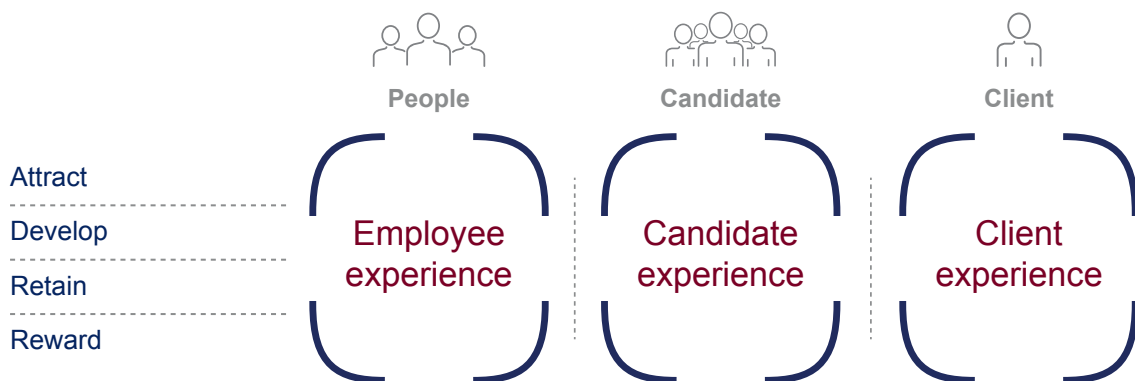


Central to Adcorp's transformation and one of the key strategic priorities for FY2020 was the need to redefine the Group culture. The *One Adcorp* culture enables the transformation of the Group into a vibrant work environment underpinned by a high-performance ethos and an unrelenting focus on candidate and client centricity. <sup>16</sup>

## One Adcorp

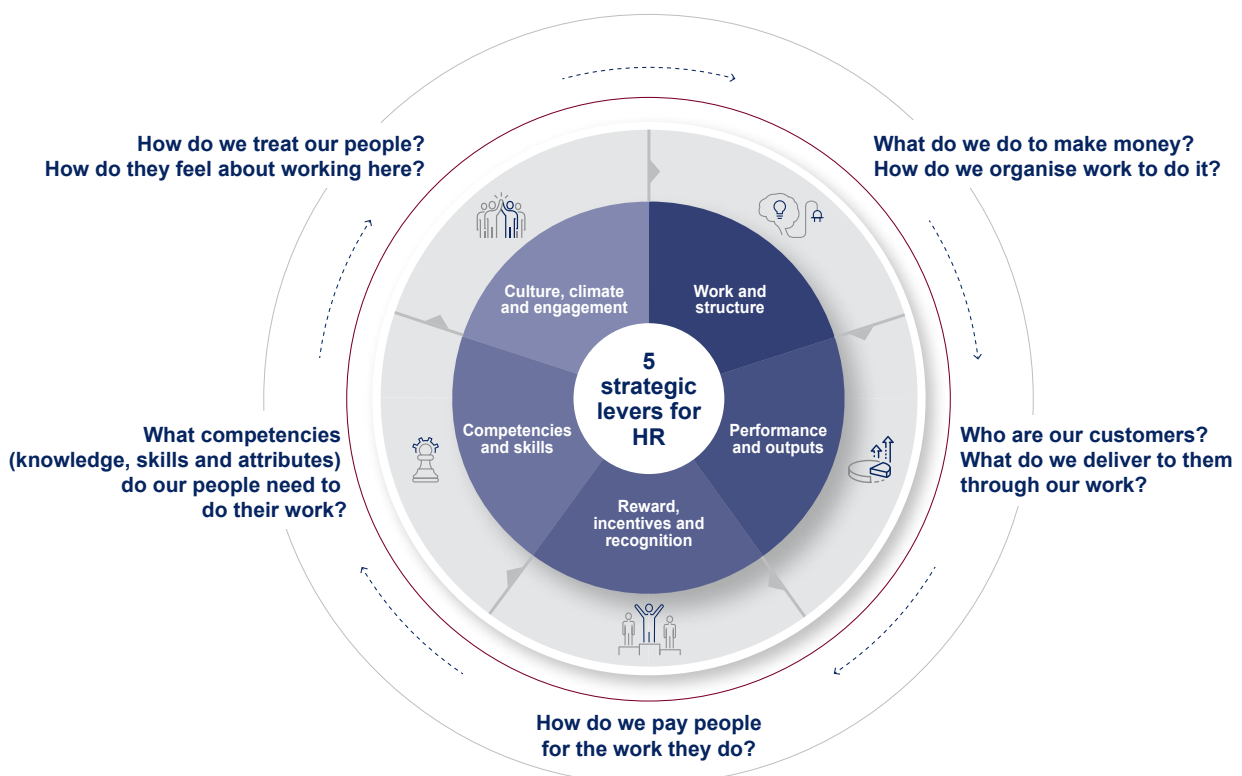
Central to Adcorp's transformation and one of the key strategic priorities for FY2020 was the need to redefine the Group culture. A history of acquisitive growth resulted in the Adcorp Group owning multiple operating companies, each with its own culture. In order to drive collaboration and teamwork across the Group, both critical enablers to embedding a sustainable change in the

organisation, the Group has over the last 18 months embarked on a process to create a *One Adcorp* culture. The *One Adcorp* culture enables the transformation of the Group into a vibrant work environment underpinned by a high-performance ethos and an unrelenting focus on candidate and client centricity.



## Creating value for employees

The *Adcorp Group People Philosophy* sets out how the Group endeavours to create an employee value proposition that will attract, develop, retain and reward the talent needed. Core to the philosophy is an empowered work environment that ensures employees have thriving careers, driven by a high-performance culture. The people philosophy is guided by five strategic levers that drive equal treatment and opportunities for all employees across the various business segments and operations.



## Human capital continued

The Group recognises that motivated employees need an inspiring space that provides opportunities to collaborate, innovate and think creatively. In September 2019 Adcorp consolidated its Johannesburg branches in a new head office workspace, Adcorp Place. The new space is designed to create opportunities to connect by bringing the Group closer together to share knowledge and information, thereby synchronising the Group's performance and facilitating quicker decision making for the benefit of our clients and candidates.

As the Group has embarked on developing a united Group culture – it acknowledges a significant reduction in headcount year on year as the business has restructured and optimised operations. Adcorp strives to ensure that its people are nurtured through this disruptive process and that they are offered all the support needed to remain positive, passionate and driven to deliver against strategic priorities and employee career aspirations.

### Adcorp is committed to creating an environment that

Attracts, rewards and retains exceptional people.

Drives a high-performance culture aligning with the objectives of stakeholders.

Aligns the financial well-being of employees with the economic interest of shareholders.

Provides transparent, consistent and equitable remuneration principles to foster an environment of collaboration, engagement and trust.

#### Focus areas

An internal audit of all human capital processes and policies was conducted using relevant diagnostic tools. The output was a strategy that addressed areas that needed to be stabilised in the short term and provide growth opportunities in the medium to long term.

<b>Culture</b>	Adcorp implemented the <i>One Adcorp</i> culture across the Group and continues to measure success every six months to determine areas of improvement.
<b>Transformation</b>	The Adcorp Group is committed to building a diverse workforce at all levels of the organisation. The Group has endeavoured to invest in black-owned business that provide wellness services to employees at Adcorp Place.
<b>Employee wellness</b>	The Group facilitates a well-being strategy that addresses employee needs by focusing on four key drivers namely, physical, mental, intellectual and financial well-being.
<b>Employee benefits</b>	All Adcorp employees have access to the affordable lifestyle benefit solutions provided by the Adcorp Financial Services division.
<b>Learning and leadership development</b>	Employee bursaries focus on building the right capabilities to position the Group for success and growth in the future.
<b>High-performance culture</b>	The Group promotes a high-performance culture where employees are recognised and rewarded for their efforts and contribution.
<b>Industrial relations</b>	Adcorp is committed to the fair and equal treatment of all our assignees, candidates and employees. To this end, the Group only associates with clients and other stakeholders who abide by the labour regulations set out in operating geographies.
<b>HR system</b>	The Group is in the process of automating HR practices so employees have easier and improved access to HR services.
<b>Policies</b>	Adcorp has established standardised policies and has made them easily available so that consistency can be driven across the Group.

#### Skills development

Building the right capabilities to position the Group for growth is a strategic imperative and a key focus area. As an organisation which also provides training solutions, Adcorp understands the benefits that come from instilling a culture of continuous learning within an organisation. Using an integrated approach to talent development, the Group addresses the needs of Adcorp as a business, as an investor in people and a social partner in the broader economy. Ongoing research into current and future requirements in the workplace ensures that training interventions are relevant, impactful and strategic.

Upskilling and reskilling of employees has become critical across all industries for businesses to stay relevant. Growth of ecommerce and technology-based sectors is leading to the creation of new job ecosystems, which is becoming a barrier to entry for many areas

of employment. Within our organisation, training programmes are implemented across all business units, aligning talent pools with the skills required for the future world of work and further enabling succession planning. Post-training learner support initiatives have been introduced to assist with continued well-being and productivity. Interventions such as learnerships, skills programmes, short courses, bursary programmes, structured internships and apprenticeships are ongoing throughout the year.

The Group has a well-established Adcorp Leadership Academy which partners with prestigious academic institutions to deliver qualifications from NQF 5 to NQF 8. Integrated learning and workplace application continue to be tools used to prepare employees for diverse eventualities and future opportunities.

No incidents of discrimination, child or forced labour have been identified during FY2020.



38	Employees graduated from Business Schools
24	Graduates were placed on an Internship Graduate Programme
842	Employees engaged in short learning programmes
3	Employees with disabilities participated in NQF 1 to NQF 2 Learnerships
65	Employees with disabilities enrolled in Academies
82	Bursaries sponsored

## Case study

## Nompilo's story, a PMI graduate

### Opportunity meets passion

Nompilo completed her Financial Management diploma at Ethekwini TVET College and received an internship at the Department of Justice at Esikhawini Magistrate's Court. It was during this time that she came across an advert seeking unemployed youth (who had plans to run their own business in the future) to study business management.

**"I applied and I knew that day that I was going to run my own business. I had to think wisely about what I wanted to venture into, and my family and my community had to be involved in my thinking."**

She completed PMI's Higher Certificate in Business Management and was provided with the added entrepreneur coaching to assist her in putting together a business plan. She also learnt how to go about conducting research to determine if the business idea would be viable in the market and to register the company. This remarkable young woman graduated (*cum laude*) on the Higher Certificate in Business Management and received the top student award.

Towards the end of 2018 Nompilo registered her recycling business, KK Services and today has been in places she never thought she would see. The going is not easy, but she no longer sees herself sending out her CV, but rather sees herself receiving them as a small business employer.

**"My small but growing business is ultimately about building a legacy and awareness about the importance of preserving and caring for the environment. KK Services is very passionate about this cause while also making a living out of it."**

To date, her company has been sponsored on an industrial scale. She has received a grant and recently won an award for being the best youth-owned business of the year in Richards Bay from the Zululand Chamber of Commerce.




The full story can be viewed on the Adcorp website at <https://www.adcorpgroup.com/stories/candidates/training/education-the-power-to-change-lives/>

## Disability

The employment and training of persons (specifically the youth) with disabilities remains close to the heart of the Adcorp Group. Specialist consultancy in skills development for people living with disabilities allows Adcorp to offer all-inclusive training solutions. With a vision of positively impacting the lives of the most disadvantaged and impoverished grouping in South Africa, Adcorp currently has 65 people in academies across the country.

## Employee relations

Adcorp supports internationally proclaimed human rights and applies the United Nations Global Compact (UNGC) principles in relation to employees by:  <sup>13</sup>

- Ensuring the Group is not complicit in human rights abuses (UNGC principles 1 and 2).
- Eliminating all forms of forced and compulsory labour and the abolition of child labour (UNGC principles 4 and 5).
- Eliminating discrimination in respect of employment and occupation (UNGC principle 6).

# Human capital continued

## Workforce wellness

Adcorp provides a comprehensive range of employee wellness benefits aimed at promoting both physical and psychological health, with the end result being reduced absenteeism rates and motivated employees.

The Group-wide assistance programme is provided to all permanent employees as well as to our managed workforce. This value-added benefit entitles employees, their immediate families and domestic workers to a broad range of services. These services include emergency medical assistance, personal health advisory services, trauma and assault assistance, legal assistance, HIV protection services and funeral repatriation services, all supported by a state-of-the-art 24-hour call centre.

## Safety, health, environment and quality

The Adcorp Group is committed to drive all safety, health, environment and quality (SHEQ) requirements in line with its facilities management strategic plan by aligning operations to:

- Ensure staff have the necessary knowledge and skills to carry out tasks safely by developing a structured training plan and programmes that ensure quality of service is provided and maintained to a high standard.

- Ensure total management commitment to promote a culture that incorporates SHEQ into all Group services and functions.
- Monitor techniques have been developed to include benchmarking systems that enable improved comparison capabilities of Group's SHEQ performance in relation to the industry and competitors.
- Undertake hazard identification and risk assessment throughout all ventures as far as possible to eliminate or minimise those risks by developing suitable controls.
- The Group has established a performance-orientated business culture that supports sustainable outcomes through commitment, governance and accountability.

In line with the *One Adcorp* culture, Adcorp is in the process of developing an Integrated Management System (IMS) to be implemented across all Group facilities and clients nationally. Compliance to Occupational Health and Safety and ISO requirements have been assimilated into all aspects of the system. Health and safety is managed nationally by the Group's SHEQ department which liaises directly with all operating companies as well as clients.

## Adcorp continuously encourages a safety-conscious workforce that adheres to rigorous safety standards.

Cardinal rules of the Group's health and safety guide include:

- |   |   |
|---|---|
| ▶ Contributing to a safe and healthy environment both in and out of the workplace | ▶ Complying with relevant health, safety and environment signage  |
| ▶ Wearing personal protective equipment and using equipment correctly             | ▶ Performing work that employees are trained to do and never assigning work to someone that is not fully trained to do so |
| ▶ Evaluating risks before a task is done; always ensuring safety first            | ▶ Preventing tampering with safety devices and equipment  |
| ▶ Reporting unsafe acts and conditions  | ▶ Respecting the environment and not contributing to pollution  |
| ▶ Reporting incidents and accidents immediately                                   | ▶ Not working under the influence of drugs and alcohol  |

## Management systems

The Group is committed to ensuring compliance with the following ISO standards by implementing one integrated system that incorporates the entire organisation's systems and processes in a complete framework, enabling us to work as a single unit with unified objectives, which are:

- ISO 9001:2015 (Quality)
- ISO 45001:2018 (Health and Safety)
- ISO 14001:2015 (Environment)
- ISO 27001:2018 (Information Security)

Where required, both in South Africa and Australia, the Adcorp Group has consistently adhered to ISO 9000 regulatory requirements and is currently in the process of transitioning to the updated ISO 9000:2015 certification requirements. The Adcorp Group has an SGS certification within our industrial environment and continuously strives to create a work environment of the highest standards of professional behaviour. 

## Period under review

- One fatality was reported, however, this was not due to occupational injury.
- All operational staff are trained to report any injury on duty via an electronic platform.

## Adcorp workforce in numbers

### Adcorp permanent employees (South Africa) – Employment equity

for the 12 months ended 31 March 2020\*

	2020	2019	2018	2017	2016
<b>Total workforce</b>	<b>17 783**</b>	17 569**	2 850	3 466	4 357
<b>Total employees with disabilities</b>	<b>87</b>	115	158	144	145
<b>Workforce profile</b>					
<b>Race and gender profile</b>					
Non-designated group (includes foreign nationals)	670	334	324	417	508
White females	298	401	474	587	667
Black males	13 150**	12 822**	846	1 017	1 433
Black females	3 665	4 012	1 206	1 445	1 749
<b>Occupational level profile</b>					
Management (top, senior, middle and junior)	1 322	1 547	1 401	1 678	1 747
Non-management	16 461**	16 022**	1 449	1 788	2 610
<b>Management profile by gender (top management, senior management, middle management, junior management)</b>					
Females	646	829	779	911	962
Males	676	718	622	767	785
<b>Management profile by race</b>					
Black	896	984	748	856	823
White (includes foreign nationals)	426	563	653	822	924
<b>Non-management profile by gender</b>					
Females	3 383	3 612	924	1 153	1 485
Males	13 078**	12 410**	525	635	1 125
<b>Non-management profile by race</b>					
Black	15 919**	15 850**	1 304	1 606	2 359
White (includes foreign nationals)	542	172	145	182	251
<b>Disability profile</b>					
Management	7	7	19	15	17
Non-management	80	108	139	129	128
<b>People with disabilities by gender</b>					
Females	43	59	77	77	76
Males	44	56	81	67	69
<b>Total employees before reporting cycle</b>	<b>17 569**</b>	15 311**	3 466	3 958	3 957
<b>Add: Recruits</b>	<b>10 978**</b>	12 004**	1 202	2 115	3 399
<b>Less: Resignations</b>	<b>3 709</b>	1 410	807	1 883	1 995
<b>Non-renewal of contracts (contract employees)</b>	<b>6 769</b>	8 032	545	530	672
<b>Dismissals (misconduct and incapacity)</b>	<b>79</b>	73	64	61	78
<b>Retirements</b>	<b>11</b>	10	44	2	10
<b>Deaths</b>	<b>17</b>	13	12	6	10
<b>Retrenchment</b>	<b>179</b>	208	386	125	234
<b>Total</b>	<b>17 783**</b>	17 569**	2 850	3 466	4 357

\* The skills development reporting period runs from 1 April 2019 to 1 March 2020 and the equity reporting has been aligned with this. The presentation of this table is consistent with the prior year.

\*\* 2019 and 2020 workforce numbers include deployed permanent employees (employees deployed/outsourced to client companies). The change in reporting was a consequence of the Constitutional Court ruling on the 'deeming provision' contained in S198 of the Labour Relations Act. Temporary employees for less than three months are reported in the workforce headcount of the TES provider. Temporary employees for more than three months are deemed to be permanent employees of the client and are therefore reported in the workforce headcount of the client.



# Human capital continued

## Summary of employment equity report for public companies

Adcorp's South African workforce is broken down as follows:

Occupational levels	Male				Female				Foreign nationals		Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	
Top management	1	1	1	5	0	1	2	1	0	1	13
Senior management	4	2	4	8	6	1	3	7	1	2	38
Professionally qualified and experienced specialists and mid-management	15	5	19	45	27	14	4	47	2	1	179
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	303	77	50	118	195	94	67	164	15	9	1 092
Semi-skilled and discretionary decision making	5 125	337	36	25	1 450	284	60	75	66	50	7 508
Unskilled and defined decision making	6 933	233	4	15	1 342	111	4	4	304	3	8 953
<b>Total permanent</b>	<b>12 381</b>	<b>655</b>	<b>114</b>	<b>216</b>	<b>3 020</b>	<b>505</b>	<b>140</b>	<b>298</b>	<b>388</b>	<b>66</b>	<b>17 783</b>

## Staff turnover

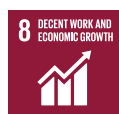
Total permanent staff turnover  
**21%**

Total temporary staff turnover  
**2%**

Total staff turnover  
**9.69%**

## Bargaining council

Adcorp upholds the rights of employees to freedom of association and collective bargaining, however, no permanent employees are members of a bargaining council.



## Creating value for our managed workforce

The Group's business purpose is expressed through the United Nations Sustainable Development Goal (SDG) 8.5.

	% change year on year	2 020	2019	2018
Temporary employees – South Africa	(34%)	<b>*40 738</b>	61 761	74 070
Temporary employees – Australia	16%	<b>1402</b>	1 203	2 371
Independent contractors – South Africa	(7%)	<b>1231</b>	1 323	1 285
Independent contractors – Australia	3%	<b>1887</b>	1 833	2 125
Learnerships – South Africa	27%	<b>262</b>	207	552
Our total managed contract/temporary workforce	(31%)	<b>45 520</b>	66 327	80 403

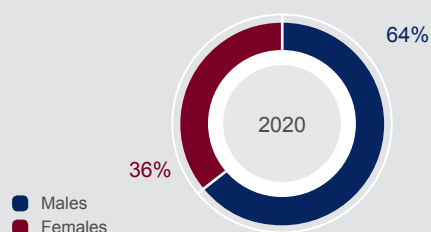
\* Temporary employees in South Africa is made up of assignees (temporary employees employed by Adcorp as a TES provider and placed at client sites for short-term or project-based work across industries) and outsourced employees (temporary employees that are hired from outside agencies and managed through the MSP model to render services to client companies).

The year-on-year decline in the number of temporary employees placed locally is attributed to:

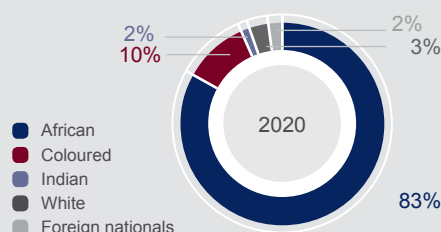
- Clients taking on candidates in permanent roles as a result of the legislative changes in South Africa; and
- Reduction in temporary employee requirements from clients as a result of depressed economic conditions.

The commitment to Adcorp's assignee workforce is to ensure they receive equitable and fair pay when placed at clients' sites and that clients comply with the National Minimum Wage Act 9 of 2018 (NMW) as well as the Labour Relations Act. The Adcorp Group has adopted a zero tolerance approach to non-adherence to the prescribed wage rates and has, during the year under review, terminated its relationship with clients not complying with the NMW. In addition, the Group provides core retirement and funeral benefits to candidates, through Adcorp Financial Services. <sup>13</sup>

### Gender breakdown of temporary employees in South Africa



### Racial breakdown of temporary employees in South Africa



## Racial and gender breakdown of the assignee workforce in South Africa

The data below covers the Group's temporary workers making up the candidate workforce for the period 1 March 2019 to 29 February 2020.

	Male				Female				Foreign nationals		Total
Occupational levels	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	
Temporary employees employed for less than three months	13 607	1 462	249	324	8 119	1 301	148	477	344	107	26 138
Temporary employees employed for more than three months	8 592	837	170	235	3 594	540	82	172	289	89	14 600
Total number of temporary employees as at 31 March 2020	22 199	2 299	419	559	11 713	1 841	230	649	633	196	40 738

## Building a talent pipeline and preparing South Africans for the future world of work

To facilitate the entry of our assignees into the workplace Adcorp provides learning materials that give guidance on the behaviour that will be expected in the workplace as well as information on how payment is received and tips on how to read a payslip. The access to learnerships, apprenticeships and internships not only helps young South Africans develop the skills needed for entry-level employment, but allows for the establishment of a talent pipeline for entry-level positions.

### In FY2020

385 employed and unemployed young South Africans were placed on NQF 1 to NQF 5 learnerships with clients.

Adcorp arranged learnerships for 65 people living with disabilities who following the completion of their learnership were provided with employment.

339 artisan apprentices were enrolled in training programmes in FY2020 (FY2019: 419). The Group's training services contribute to the development of artisans in response to the shortage of technical skills in South Africa. The Adcorp Group works with five sector training authorities: The Mining Qualifications Authority (MQA), the Transport Education and Training Authority (TETA), the Chemical Industries Education and Training Authority (CHIETA), the Agriculture Sector Education and Training Authority (AgriSeta) and the Local Government Sector Education and Training Authority (LGSeta) and non-profit organisations including the Nkungumathe Youth Development Forum.

## During FY2020, 1 134 people were enrolled in Adcorp's training and development initiatives (FY2019: 2 645)

	2 020	2 019	2018
Employed and unemployed people participating in NQF 1 to NQF 5 learnerships	385	1 032	468
Internships and apprenticeships in progress	345	419	754
People with disabilities enrolled in our academies	65	775	696
Enrolled artisan apprentices	339	419	818
Total	1 134	2 645	3 723

## Learnerships

Learnerships are one of the vehicles utilised to address youth unemployment. Learnerships, both for currently employed and unemployed people, remain a strategic imperative across the Group given the need to establish a solid talent foundation at entry-level positions. The focus is on developing skills in core occupational areas related to resourcing, administration, project management and generic management. Going forward,

learnerships will focus on incorporating the skills of the future into the curricula as well as in providing an outstanding learner experience.

## Freedom of association and collective bargaining

The Adcorp Group upholds the rights of employees to freedom of association and collective bargaining. The table that follows includes details of the bargaining councils that temporary and outsourced employees belong to.

## Bargaining council

### Temporary staff

Bargaining council	Number
Cleaning council	94
MEIBC	2 665
MIBCO	2 462
Leather industry	19
Road freight	3 033
Civil engineering council	505
<b>Grand total</b>	<b>8 788</b>

SDGs impacted:



## Social and relationship capital



As South Africa's largest workplace solutions provider, Adcorp plays an important role in shaping the South African economy and society. In addition to the societal impact of the work we do, Corporate Social Investment is a vital part of the Group's identity. <sup>16</sup>

In delivering on the Group's core purpose to develop talent and connect job seekers with employers, Adcorp aims to impact society positively by:

- Addressing social inequality;
- Improving the employability of the youth;
- Closing the skills gap; and
- Promoting an economically active society.

**We also continuously aim to behave responsibly with regard to the Group's impact on climate change and scarce resources**

### Committed to creating value for society

As a responsible corporate citizen, Adcorp aims to assist in promoting social development by building capacity within the broader society. Value is created for society through business operations by:

- Facilitating access for young South Africans to learnerships, apprenticeships and internships that help develop the skills needed for entry-level employment;
- Facilitating interactions between job seekers and employers; and
- Providing temporary employees with access to employee benefits.

### Committed to social upliftment – Corporate Social Investment

As South Africa's largest workplace solutions provider, Adcorp plays an important role in shaping the South African economy and society. In addition to the societal impact of the work we do, Corporate Social Investment is a vital part of the Group's identity and Adcorp has a proud history of creating, maintaining and supporting developmental, social and environmental projects.

The Corporate Social Investment ambition for FY2020 was aimed at providing young people with high school and tertiary education opportunities that will improve their ability to secure full and productive employment. The specialised capabilities of our Group

companies *iCan!* and *Charisma* were used to provide learnership opportunities for people living with disabilities, as well as wellness assessments for temporary employees and job seekers in the communities in which the Group operates.

### High school bursaries

The Adcorp Group accepts that social development cannot be the sole responsibility of government. As a responsible corporate citizen, the Group endeavours to assist in promoting social development by building capacity within broader society with a particular focus on education. The Group provides bursaries to disadvantaged high school learners from various schools in the country. During FY2020, we provided bursaries to 175 learners across the country.

**“Over the past four years 727 high school learners have benefitted from Adcorp's bursary programme.”**

### Improving the employability of South African youth

During FY2020, Adcorp entered into an ongoing partnership with CIDA Empowerment Trust to sponsor 19 female students from disadvantaged backgrounds who are studying towards education degrees through distance learning. The students study part-time and work full-time through a learnership programme at St Peter's College, which provides them with opportunities to shadow experienced teachers. Adcorp provides financial support for the students' tuition fees and study materials. At the end of their studies, these students are empowered to find employment.

### Providing opportunities for learners with disabilities

Through a partnership with the Khulisani Learn to Earn programme, 65 learners with disabilities completed learnerships and were provided with work-readiness support and work opportunities in non-profit organisations.

### Case study

## Nombuso's story Learn to Earn beneficiary

**HOLAH Charity Shop** is a fundraising initiative of Likhon iThemba, a registered charity that runs the **HOLAH Baby Home** for abandoned babies as well as the **Bowl of Plenty** feeding scheme.

Nombuso Mavundla has a physical disability (hip deformity replacement) in both hips. *“I had lost hope in life but since I did my learnership and joining Khulisani I have regained my confidence. The Learn to Earn programme has been life changing for me.”* Her communication skills have improved tremendously as she deals with different types of customers from all walks of life. *“I am able to manage my finances better and I have learnt a lot about work ethics.”* Kim, Nombuso's supervisor, attests to Nombuso's good work.

### Committed to growing small and medium-sized businesses

While the bursary component spearheads Social Enterprise Development (SED) efforts, various other initiatives have also been established to enable young people to find first-time jobs or succeed in their entrepreneurial pursuits. SED initiatives are used as a supporting mechanism to further address the social inequalities. In FY2020 Adcorp enhanced efforts to ensure the growth of small and medium-sized black businesses by providing

finance, support and business development assistance. By investing in SEDs, the quality of entrepreneurs are uplifted and SMMEs are empowered to create jobs.

The Adcorp Group has invested in SED and Enterprise Development (ED) beneficiaries during FY2020. The aim of this initiative is to provide beneficiaries with the support needed to ensure operational efficiency, profitability, sustainability and further job creation.

**Plady M Proprietary Limited** is a 100% black female and youth owned full-service beauty salon dedicated to consistently providing customer satisfaction by rendering excellent service and quality products at an acceptable price.

**Bliss Inc** is a 100% black female and youth-owned therapeutic massage service.

**Corporate Ride Shuttle**  
Mr Lebohang Shai's company provides transportation to Adcorp staff and other clients who may require shuttle services.

**Corporate Ride Shuttle** has grown significantly and employs six staff members.

**Destiny Cuisine Proprietary Limited**  
Mr Titus Makoro owns this catering services company, specialising in the provision of food and beverage services on site to clients, their employees and guests.

**Sihle's Brew Proprietary Limited** is a 100% black-owned coffee manufacturing and retail provider. Mr Sihle Magubane provides a full service of mobile barista solutions.



## Social and relationship capital continued

### Case study

#### Sihle's Brew

**"I worked for Ciro as a barista trainer, facilitating training all over the country at international hotels etc., and one day I thought to myself, I've gained so much knowledge and experience from all these jobs. I think I'm ready to take the leap and start my own business."**

In 2012, Sihle registered his company and Sihle's Brew was born. Despite the business being in its infancy, Sihle's Brew performed exceptionally well right out the gate.

In 2014/2015, Sihle received an offer to join a supplier development programme at Massmart. He was offered an opportunity to attend GIBS business school where he learnt how to run a business over the year-long course.

**"It was a lot to learn in such a short time, but I graduated as one of the top four students, and now Sihle's Brew is one of the GIBS top 50 alumni-owned companies with a promising future in Africa."**

Sihle heard about a tender at Adcorp last year through a friend of his.

**"My friend said to me, 'You are the only person I thought of for this tender, you will be perfect for the job.'"**

Sihle tendered alongside a few other companies, and after a month interviewed for Adcorp's supplier development programme. **"From there we started engaging with Adcorp and now here we are."**

Working in a corporate environment has been a new experience for Sihle's Brew and has resulted in tremendous growth for the business.

**"I'm so excited about this opportunity. I used to have a staff complement of six people and since starting at Adcorp I now have 18 permanent employees."**

They have also trained more than twenty people, two of whom have already opened their own coffee shops, creating more job opportunities. Sihle went on to share that this has been an adjustment for him and his staff, going from working in a coffee shop to a professional corporate environment. They are growing fast and learning a lot.

**"This opportunity has opened up a whole new market for us. As we grow, we hope to leverage this experience we are gaining to build new business."**

As part of our supplier development programme, the Group has plans to build Sihle's skill set through identifying gaps and helping him to fill them, to be an enabler for Sihle and support him in his efforts of building a sustainable business and growing his brand. As much as Adcorp has plans to support Sihle, Sihle has a few of his own for the future that expand beyond the brew.

**"My passion is not only coffee. I want to teach and share my knowledge with other young people."**

Sihle's plans include opening up a fully accredited training centre to build up the youth in South Africa. This is an admirable venture that the Group supports wholeheartedly.

**"My hope is that through partnering with Adcorp, I am able to grow my business to the level where I am able to live this dream."**





### Committed to the well-being and employability of candidates and job-seekers

Charisma Healthcare Solutions offers health assessments for temporary employees and those seeking employment. Wellness days for candidates include blood pressure, BMI, cholesterol, glucose and vision screening tests. Once assessments are completed, confidential reports are sent to the patients. Charisma Healthcare Solutions also provides health assessments for the unemployed at Adcorp's Resource Centre. In FY2020 Charisma provided more than 6 500 health assessments to unemployed South Africans.

**"Our wellness clinics and medical fitness screenings allow Adcorp's temporary employees, as well as people seeking work who come to our Resource Centre, to take responsibility for their well-being and become more employable."**

### Committed to B-BBEE and transformation

The Adcorp Group is committed to the creation of an inclusive, diverse labour market that provides equal opportunities to all individuals. This extends beyond the essential verification requirements and legislative compliance. Significant changes introduced under the Revised Codes of Good Practice in December 2017 challenged the Group, leading to a non-compliant

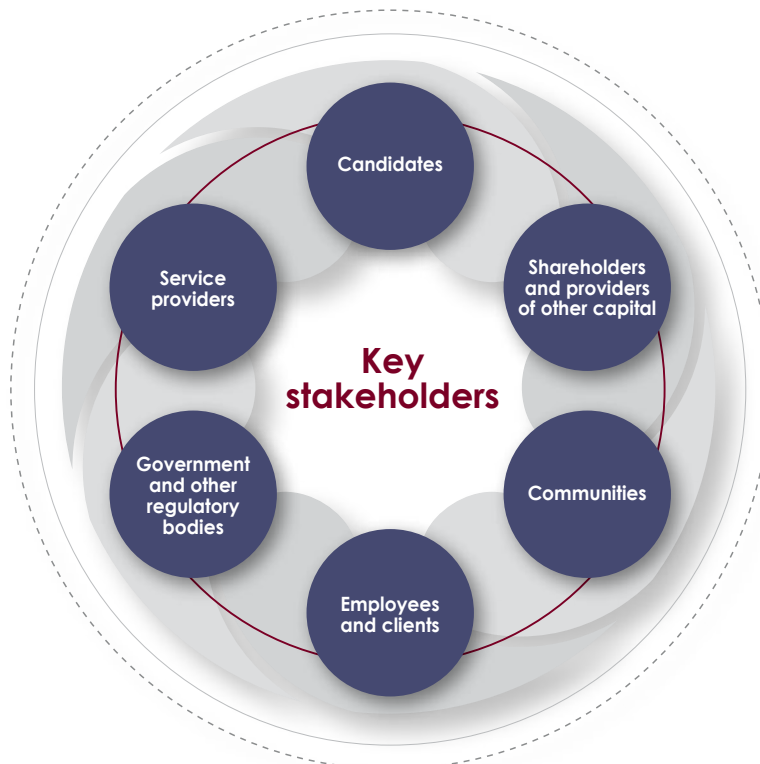
rating in FY2020. Therefore, the Group is following a centrally driven B-BBEE strategy with detailed accompanying plans across all four pillars to assist with compliance. Adcorp is focused on creating a culture in which employees are personal enablers and ambassadors of transformation, holding each other and the business accountable and challenging each other in their behaviours. <sup>8</sup>

### Stakeholder engagement

Essential to the effectiveness of the Group's integrated and collaborative approach to business is the interaction the Group maintains with all stakeholder groups. Adcorp ensures active engagement with stakeholders, individually and collectively at both a macro and operational level to share information and gain an appreciation for their perspectives. <sup>16</sup>

The Group's operating companies engage with stakeholders on important issues which may significantly impact their day-to-day activities. This engagement process also helps identify important commercial and sustainability issues and leads to the development of workable solutions that are often industry-specific.

A wide variety of issues are identified, investigated and debated through stakeholder engagement forums. The Board and management acknowledge their responsibilities to stakeholders and are committed to communicating in a transparent and effective manner while engaging with each stakeholder group in line with their needs. Engagement is ongoing and takes place in terms of a predetermined engagement plan.



SDGs impacted:



# Natural capital



As a responsible corporate citizen, Adcorp aims to embed a culture of social and environmental responsibility among employees through training and awareness campaigns and encouraging environmentally-friendly practices in the workplace. <sup>16</sup>

## Adcorp – a ‘green’ corporate citizen

Most of the Adcorp businesses do not have a large environmental footprint and therefore do not pose significant threats to the environment. The Adcorp Group is, however, committed to reducing the environmental impact it has. Adcorp aims to embed a culture of social and environmental responsibility among employees through training and awareness campaigns, duplex printing, electronic communication, car-pooling and continuous development of innovative digital workforce solutions that can benefit stakeholders.

## Creating value through the efficient and responsible use of resources

The efficient and responsible use of resources will not only keep the business lean and agile, but it also ensures Adcorp meets its responsibility to current and future generations by:

- Reducing consumption across the entire Group; and
- Minimising the Group's carbon footprint.

Area	Inclusions	Exclusions
Electricity – kilowatt	Estimated electricity consumption associated with buildings rented by Adcorp.  The Group's electricity costs are factored into our building rental rate with some buildings (including common facilities) shared with other tenants. Due to the fact that there is often insufficient data to accurately capture the exact electricity consumption per site, only data from Adcorp's head office was used to establish a baseline of kWh usage for FY2020 per employee. Given that all the Group's offices are very similar in activities, equipment and office layout/configuration, the electricity usage figure per employee for head office was used to calculate estimated consumption for the remainder of the Group's operations in South Africa.	N/A
Paper – copies printed	Actual number of printed copies as reported by third-party suppliers.	Pre-printed stationery, envelopes and paper bought not used in printers monitored by third-party suppliers.
Fuel – petrol/diesel	Actual consumption of all vehicles owned by Adcorp.	Actual consumption for vehicles used for business purposes, owned by employees.
Water	Estimated water consumption associated with buildings rented by Adcorp.	N/A

## Reducing consumption

Business unit managers are expected to encourage the efficient and responsible use of resources in their areas of responsibility.

### Reducing reliance on municipal water supplies

The Group operates in some of the most water-scarce regions in South Africa. Wherever possible, water storage tanks that collect rainwater have been installed.

### Energy

The measures in place to reduce electricity consumption include the installation of LED technology lights, which consume less electricity than conventional lighting and the use of motion-sensors which ensure that when an office is not in use the lights are automatically switched off. Adcorp seals off the air conditioning units in offices at night to reduce electricity consumption.

## Paper

The Group has centralised printing facilities with the aim of achieving efficiencies and reducing the number of pages printed across all offices. By reducing the number of pages printed the energy used to print is also reduced. Adcorp extended its longstanding partnership with its printing supplier to provide a holistic managed print service (MPS) solution, which will deliver a more efficient and sustainable office printing environment, further enhancing efficiencies. In FY2020 Adcorp managed to reduce paper printing by 24% to 11 585 570 from 15 296 885 pages in 2019. Through the reduction of the number of pages printed, Adcorp also reduces the associated energy levels.

## Minimising our carbon footprint

Steps are taken to reduce electricity consumption which also reduces the Group's carbon emissions. In addition, the Group has installed solar panels at Adcorp Place that reduces to some extent the dependence on electricity generated by the burning of fossil fuels.

Adcorp's scope 1 greenhouse gas (GHG) emissions (direct GHG emissions from sources that are owned or controlled by Adcorp) from the consumption of diesel and petrol by vehicles owned by Adcorp and used for business purposes, increased by 8% year on year in FY2020 (FY2019: 6% increase year on year).

Every year Adcorp offsets the scope 2 GHG emissions (indirect greenhouse emissions produced during the production of electricity using fossil fuels) used to run printers, and scope 3 GHG emissions (indirect emissions from sources not owned or controlled by Adcorp) generated by paper consumption, by purchasing carbon credits in a carbon offset project, which is reducing deforestation and degradation.

(See <http://www.carbongreenafrica.net> for more information).

## Waste management

Adcorp provides recycling bins in all offices for paper, plastic, glass and wet waste. Landlords are responsible for ensuring the waste is disposed of correctly. The Group uses an accredited ewaste recycler to dispose of scrapped computer equipment. The recycling service provider issues a certificate of destruction and a breakdown of the specific waste types generated during the destruction of the equipment in accordance with the relevant environmental standards.

SDGs impacted:



## Adcorp Place

Consisting of three buildings (Block A, B and C) the Adcorp Place campus has been transformed into an energy-efficient campus. Energy-saving solutions that include motion sensor lights, solar panels and a water reservoir have been installed to reduce the campus' carbon footprint and to support building functionality should certain services be interrupted. The Group has also enlisted the full services of a waste management partner as part of the health and safety policy and plan.

## Adcorp facilities management

The Group strategy is underpinned by the aspiration to build workplaces and careers for the future. In order to create a work environment that is aligned to the future world of work, a number of strategic interventions have been implemented including the transformation of the Adcorp culture, strengthened by values and a high-performance ethos. The move to the new collaborative workspace, Adcorp Place, in Johannesburg has enabled Adcorp to learn and grow together, leveraging diversity and experience to create effective workplace solutions for clients.

As the Group leverages its size and scale as *One Adcorp* – effective facilities management is provided through:

- Managing the physical building infrastructure that enables Adcorp to realise the impact of its strategy, its ability to impact society at large to build the economy and to empower a working future through its solutions.
- Providing Adcorp with the building infrastructure required to support the Group's mandate and to facilitate its operational delivery. This entails the planning, acquisition and disposal of fixed and movable assets to optimise the Group's use of office space, implementing infrastructural changes where necessary, implementing an effective repair and maintenance programme for all Adcorp premises and enhancing compliance to health and safety-related legislation and regulations.

# Financial capital



The financial sustainability of the Group relies on the availability and management of internal and borrowed funds. Financial capital enables value creation with all the other capitals. <sup>16</sup>

Through the combined use of capital inputs, such as share capital, cash reserves and borrowings, we fund our working capital requirements by providing staffing solutions, enhance the productive capacity of our people through training, innovate around technology and services, and benefit our community relationships through our investment in CSI initiatives.

## Shareholder value creation

Sustainable value creation is driven by strong operational performance that unlocks cash and disciplined capital allocation.

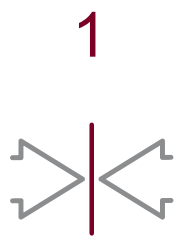
## The Group's financial strategy supports sustainable value creation

Ensuring an improvement in underlying operational performance while the business transformation takes place.

Driving the implementation of a disciplined approach to capital allocation.

## The Adcorp Group investment case

Adcorp's investment case is built on the following key themes that ultimately drive shareholder value:



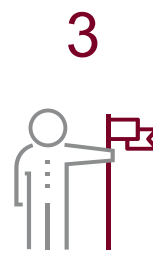
**1**  
Clear portfolio alignment to enable each aspect of the business to be optimised



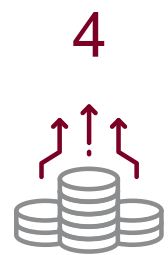
**2**  
Focused strategic choices related to value accretive acquisitions and growth initiatives



**3**  
An organisation that is committed to using its capabilities and market position to improve socioeconomic conditions in its communities by increasing employability and connecting people with opportunities



**4**  
A commitment to continual efficiency gains



**5**  
A highly cash-generative business with the ability to provide sustainable distributions to shareholders

## Capital allocation strategy

The Group's capital allocation strategy is designed to support sustainable value creation by facilitating the improvement of the Group's underlying operational performance while business transformation takes place and driving the implementation of a disciplined approach to capital allocation throughout the Group.

The Group's capital allocation policies have been strengthened to ensure that teams focus on high-quality growth yielding returns in excess of the cost of capital. We are also driving a focus on the writing of quality business that results in profitable growth, and the reduction of DSO ensures optimal conversion of EBITDA into free cash flow. To support this focus our approach to remuneration, especially at senior management level, strongly aligns reward and remuneration with financial performance.

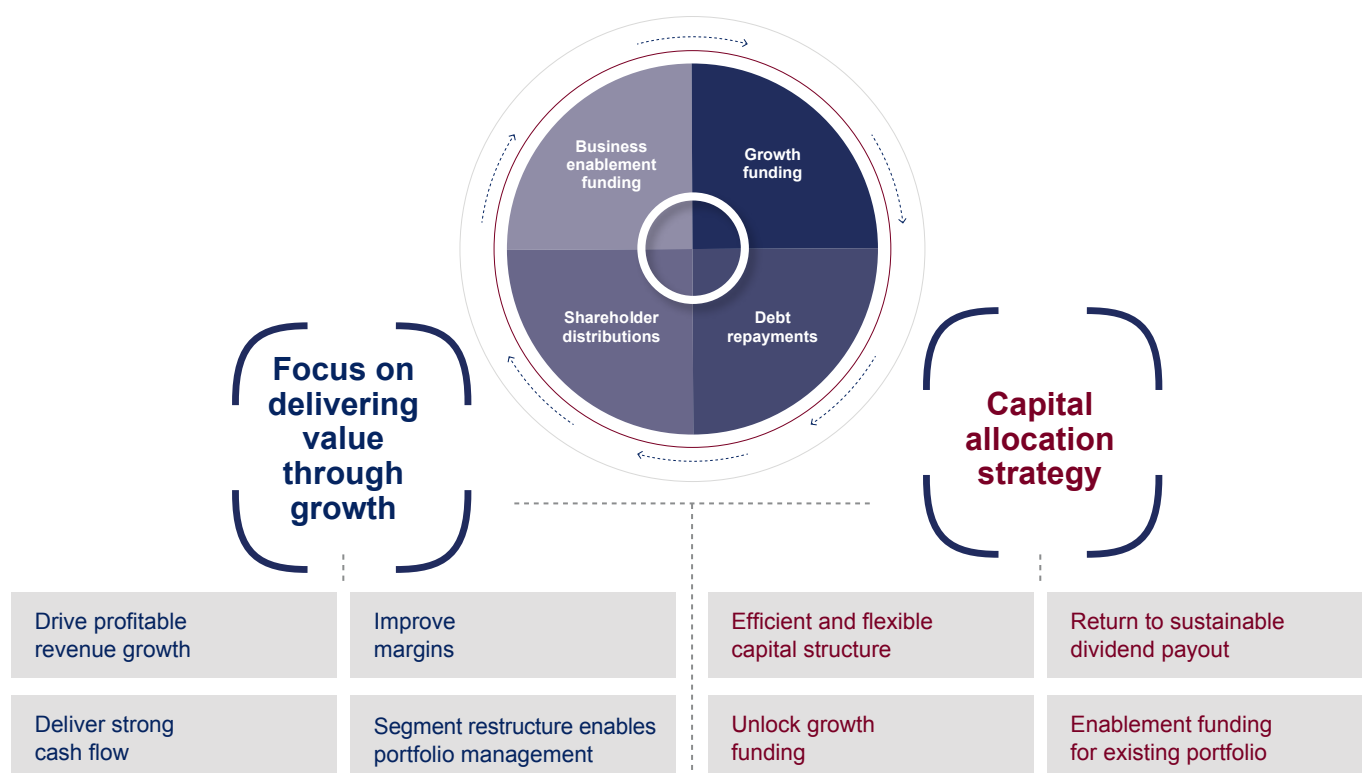
The Group has set a target capital structure of 1.5x debt:EBITDA and closed the financial year on 2.0x debt:EBITDA. The decrease in cash generated from operations, impacted cash negatively. This resulted in the gearing ratio increasing from 27% to 58% in

the current year. Adcorp continues to pursue attractive growth opportunities and review our ability to provide sustainable shareholder distributions.

Capital allocation decisions are underpinned by the need to balance growth and return the value generated by this growth to our shareholders through distributions. The Board is targeting a 1.5x dividend cover ratio. However, this will be assessed against competing priorities related to business enablement and growth, and moderated in line with the principle of responsible and sustainable shareholder value creation. This will be guided by a combination of the gearing target, liquidity metrics and growth in ROIC and HEPS.

Share repurchases are undertaken at times when management believes that the shares of the Group are trading at a discount and there is excess cash available. During the year management purchased R30 million worth of treasury shares. Opportunistic purchases will continue in FY2021 in line with share price and available alternative uses of capital.

## Sustainable growth in total shareholder returns





## Financial capital continued

### Capital structure

Invested capital amounted to R1.9 billion and a negative return of 32.5% we achieved in the current year. The Group's target is to ensure that ROIC exceeds WACC. This aligns with the metrics set for the vesting of senior management share awards. The Investment Committee set the WACC of the Group at 14%.

	2020 R'000	2019 R'000
Net debt	682 712	518 672
Total equity	1 175 747	1 905 474
Invested capital	1 858 459	2 433 164
(Loss)/profit for the year	(603 750)	262 145
Return on invested capital	(32.5%)	10.8%

### Debt

The Group's strategy is to use revolving debt funding to enable the flexibility required to manage our balance sheet exposure and cost of funding in line with the working capital requirements of the business, taking into account the cash generated from operations.

	2020 R'000	2019 R'000
Total facility drawn	1 001 684	885 302
Net debt	682 712	518 672
Gearing – net debt	58%	27%
Leverage**	2.9x	1.9x
Interest cover*	1.5x	3.6x

\* Earnings before interest, impairment expense and tax expense divided by interest expense.

\*\* Leverage ratio (Gross debt/EBITDA).

The number of issued and outstanding shares remained stable compared to FY2019.

	2020 R'000	2019 R'000
Ordinary shares	109 955	109 955
Treasury shares	(2 555)	(1 318)
B shares	—	—


### Major shareholders and share liquidity

Top 5 shareholders	43.99%
Rest of top 10 shareholders	16.84%
Rest of top 20 shareholders	20.35%
Others	18.82%
<b>Total</b>	<b>100.00%</b>

Market capitalisation at 29 February 2020	R1 044 569 413
Volumes traded during period	23 563 882
Ratio of volumes traded to shares in issue	21.43%

The Group has a concentrated shareholder base, with the top five shareholders holding approximately 69% of the issued share capital. The treasury shares held by Adcorp at 2 554 622 comprise 2.3% of total shareholding.

The number of shares traded has reduced over the years. Our long-term strategy is to broaden our shareholder base and increase liquidity of our shares over time.

More information on our shareholders and the Adcorp share performance is available under the *Shareholder information* section on pages 154 to 156 of this report. 

SDG impacted:





# Audited consolidated annual financial statements

## Directors' responsibility for the annual financial statements

### To the shareholders of Adcorp Holdings Limited

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 audited consolidated financial statements and related financial information included in this report. It is their responsibility to ensure that the audited consolidated financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditor is engaged to express an independent opinion on the audited consolidated financial statements.

The audited consolidated 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 Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set 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 Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group 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 audited consolidated 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 Group's cash flow forecast for the 12-month period from approval of the consolidated financial statements to June 2021 and, in light of this review and the current financial position, they are satisfied that the Group has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor is responsible for independently auditing and reporting on the audited consolidated financial statements. The audited consolidated financial statements have been examined by the Group's external auditor and their report is presented on pages 67 to 74.

The audited consolidated financial statements set out on pages 81 to 151, which have been prepared on the going concern basis, were approved by the directors on 29 June 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 and its subsidiaries 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 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  
29 June 2020



# Independent auditor's report

To the shareholders of Adcorp Holdings Limited

## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of Adcorp Holdings Limited and its subsidiaries (the Group) set out on pages 81 to 151, which comprise the consolidated statement of financial position as at 29 February 2020, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 29 February 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRS 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 consolidated financial statements* section of our report.

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised January 2018)*, parts 1 and 3 of the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (Revised November 2018)* (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa.

We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* (including International Independence Standards) respectively.

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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report continued

Key audit matter	How the matter was addressed in the audit
<p><b>Key judgements applied in the going concern assessment</b></p> <p>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 Group. Assessing the impact of COVID-19 on the appropriateness of the going concern assumption and the forecasts used for the preparation of the consolidated 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.</p> <p>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 17 of the consolidated financial statements.</p> <p>Subsequent to year end the Group 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.</p> <p>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 Group's capital and liquidity position. As stated in note 37, 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 of non-core assets.</p> <p>The directors are confident that the new funding facility, along with the implemented cash preservation measures taken to date, provide the Group with sufficient liquidity to successfully navigate through the current uncertainty.</p> <p>The judgements applied with respect to the directors reaching their going concern conclusion are disclosed in note 37 of the consolidated financial statements.</p>	<p>We reassessed the risk assessment on going concern and took into account the additional considerations of the impact of COVID-19 on the Group when assessing the future cash flow and judgements applied in reaching the going concern conclusion.</p> <p>In evaluating the director's judgements in determining whether there are any material uncertainties which may cast doubt on the Group's ability to continue as a going concern, the following procedures were performed:</p> <ul style="list-style-type: none"> <li>• Testing the design and implementation of controls around the going concern assessment and the judgements applied.</li> <li>• Assessing the operational disruptions COVID-19 and the lockdown created in the various jurisdiction in which the Group operates and to the Group'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.</li> <li>• Reviewing the director's revised cash flow forecasts for the next 12 months from date of approval of these consolidated financial statements and critically challenging the key inputs into these forecasts including the following:             <ul style="list-style-type: none"> <li>• Value and availability of financing facilities.</li> <li>• Reasonability of the projected monthly revenue and monthly cash collections.</li> <li>• Reasonability of cost saving initiatives being proposed.</li> <li>• Reasonability and approval for the sale of the businesses as disclosed in note 3.</li> <li>• Assessing future looking covenants and impact of any potential breaches.</li> <li>• 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.</li> <li>• Performing sensitivity analysis by assessing the impact on the headroom of the available banking facilities under various scenarios.</li> <li>• In evaluating the appropriateness of future cash flows we involved specialist from our financial advisory services team.</li> </ul> </li> <li>• Inspecting the new signed facility for R850 million effective at 1 July 2020.</li> <li>• Leveraging the expertise and guidance of our IFRS accounting and local and global COVID-19 specialist teams.</li> <li>• Assessing the related disclosure relating to going concern in the consolidated financial statements.</li> </ul> <p>Based on the procedures performed, we concur with the directors' judgement applied to conclude on the Group's ability to continue as a going concern and that no material uncertainty related to going concern exists.</p> <p>We consider the disclosures in note 37 to the consolidated financial statements to be appropriate.</p>

Key audit matter	How the matter was addressed in the audit
<p><b>Accounting for the implementation of IFRS 16 Leases (IFRS 16), and the disclosure thereof in the consolidated financial statements</b></p> <p>The Group adopted IFRS 16 <i>Leases</i> (IFRS 16) for the first time for the year ended 29 February 2020, and the right-of-use assets (R415 million) comprise 10% of the total assets, and the lease liabilities (R497 million) comprise 12% of the total liabilities of the Group as at 29 February 2020.</p> <p>In applying IFRS 16, the Group followed the modified retrospective implementation option which results in a once-off change in accounting policy adjustment at 1 March 2019. The Group also applied certain practical expedients permitted by the standard, including a single discount rate for leases with reasonably similar characteristics.</p> <p>The lease liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) as at 1 March 2019. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.</p> <p>The weighted average incremental borrowing rate applied to the lease liability as at 1 March 2019 was an average of 10.3% for South Africa and 3.7% for Australia.</p> <p>We have identified a key audit matter related to the judgements applied in the valuation of the leases in terms of IFRS 16 and the disclosure thereof in the consolidated financial statements as disclosed in note 6.</p>	<p>We focused our testing of the implementation of IFRS 16 on the key assumptions made by the directors. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Testing the design and implementation of relevant controls over the IFRS 16 calculations and disclosures;</li> <li>• Engaging our internal specialists to assist with: <ul style="list-style-type: none"> <li>• Reviewing the appropriateness of the discount rate methodology applied for the purpose of discounting lease payments as per IFRS 16.</li> <li>• Reviewing the appropriateness of the reference rate(s) (including any risk premiums in the event of foreign currency rates) applied per jurisdiction for each applicable lease term;</li> <li>• Reviewing the appropriateness of the credit spread or financing spread adjustment applied.</li> </ul> </li> <li>• Testing the acceptability of the incremental borrowing rate estimates by calculating an incremental borrowing rate using a process consistent with generally accepted valuation practices.</li> <li>• Assessing the appropriateness of the lease terms used in the right-of-use asset and lease liability calculation.</li> <li>• Recomputing the right-of-use value assets and lease liabilities at implementation and reporting date.</li> <li>• Assessing the related disclosure relating to IFRS 16 in the consolidated financial statements.</li> </ul> <p>Based on the procedures performed and information available, we identified misstatements that were corrected by management and found the right-of-use asset and lease liability and the disclosures thereof to be appropriate.</p> <p>We found the presentation and disclosures in respect of the right-of-use asset and lease liabilities to be consistent with the requirements of IFRS 16.</p>

# Independent auditor's report continued

Key audit matter	How the matter was addressed in the audit
<p><b>Impairment assessment of the valuation of goodwill</b></p> <p>Goodwill (R636 million) comprise 16% of the total assets of the Group. The Group has recognised these assets in the consolidated statement of financial position mainly as a consequence of business acquisitions.</p> <p>As required by IAS 36 <i>Impairment of Assets</i> (IAS 36), the directors conduct annual impairment tests to assess the recoverability of the carrying value of goodwill and indefinite life intangible assets. This is performed using the discounted cash flow (DCF) models.</p> <p>As disclosed in notes 7 of the consolidated financial statements, there are a number of key sensitive judgements made in determining the inputs into these models. The carrying amount of the goodwill as at 29 February 2020 is R636 million, after taking into account an impairment charge of R558 million which has been recognised in the current year and disclosed in note 7 of the consolidated financial statements.</p> <p>The key assumptions with the most significant impact on the valuation models include:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Terminal growth rates applied to the valuation models; and</li> <li>• The discount rates applied to the projected future cash flows. The discount rate is subjective and the calculation is complex.</li> </ul> <p>The impairment assessment of goodwill is considered to be a key audit matter as a result of judgement required to be applied by the directors.</p> <p>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.</p>	<p>We concurred with the directors determination that events due to COVID-19 pandemic are a non-adjusting subsequent events.</p> <p>We focused our testing of the impairment of goodwill on the key assumptions made by the directors. Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Testing the design and implementation of relevant controls over the goodwill impairment assessment. A control deficiency was identified and we enhanced our substantive procedures accordingly.</li> <li>• Engaging our internal specialists to assist with: <ul style="list-style-type: none"> <li>• Critically evaluating whether the models used by the directors to calculate the value in use of the individual cash-generating units are aligned with IAS 36.</li> <li>• Validating the assumptions used to calculate the discount rates and independently recalculating the discount and growth rates.</li> </ul> </li> <li>• 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 cash-generating units.</li> <li>• 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.</li> <li>• Recomputing the value in use of each of the cash-generating units 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.</li> </ul> <p>Based on the procedures performed and information available, we found the goodwill and intangibles and subsequent impairments as well as the disclosures thereof to be appropriate.</p> <p>The disclosures of the goodwill and intangible assets are consistent with the requirements of IFRS 3 <i>Business Combinations</i>, IAS 38 <i>Intangible Assets</i> and IAS 36.</p>

Key audit matter	How the matter was addressed in the audit
<p><b>Recoverability of deferred tax assets</b></p> <p>Deferred tax assets raised on tax losses for the Group amounted to R96 million. This has been recognised in the consolidated statement of financial position as disclosed in note 9 of the consolidated financial statements.</p> <p>The Group recognised deferred tax assets on tax losses in respect of the entities where it is probable in the judgement of the directors that future taxable income will be generated to realise these recognised tax assets. This requires the directors' judgement in estimating future taxable income.</p> <p>The key assumption with the most significant impact on the determination of the deferred tax asset raised include the growth rates applied to revenue, operating profits and EBITDA and EBITDA margins. The growth rates are highly subjective since they are based on the directors' experience and expectations rather than observable market data.</p> <p>We identified the estimation and valuation of the deferred tax assets raised on tax losses as a key audit matter as a result of the judgement required to be applied by the directors.</p> <p>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 including deferred tax assets are measured based on information as at 29 February 2020.</p>	<p>We concurred with the directors determination that events due to COVID-19 pandemic are a non-adjusting subsequent events.</p> <p>We involved our tax specialists to evaluate the recognition and measurement of the current and deferred tax assets. This included:</p> <ul style="list-style-type: none"> <li>• Testing the design and implementation of relevant controls over the computation and assessment of tax and deferred tax;</li> <li>• Analysing the current and deferred tax calculations for compliance with the relevant tax legislation.</li> <li>• Evaluating the directors' assessment supporting the future cash flows, and analysing these future projected cash flows to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the entities;</li> <li>• Comparing the projected cash flows, including the assumptions relating to revenue, operating profit, EBITDA, and EBITDA margins, against historical performance to assess the reasonableness of the directors' projections; and</li> <li>• Challenging the assumptions made by the directors around the future plans for the tax paying entities that have been applied or used to justify the deferred tax assets raised.</li> </ul> <p>Based on the procedures performed and information available, we found the deferred tax balances recorded and the disclosures thereof to be appropriate.</p> <p>The presentation and disclosures in respect of the deferred tax balances to be consistent with the requirements of IAS 12 <i>Income Taxes</i>.</p>



# Independent auditor's report continued

Key audit matter	How the matter was addressed in the audit
<p><b>Recoverability of trade accounts receivable balance (expected credit loss)</b></p> <p>Gross trade accounts receivable (R2.0 billion) comprises 50% of the total assets of the Group and have been recognised in the consolidated statement of financial position.</p> <p>As disclosed in note 12 of the consolidated financial statements the aged gross outstanding debtors (past due 91+ days) for the Group was R134 million, and the expected credit loss raised is R86 million for the Group.</p> <p>The key assumptions with the most significant impact on the assessment of the impairment allowance on the trade accounts receivables include:</p> <ul style="list-style-type: none"> <li>• Credit terms.</li> <li>• Expected credit loss ratios.</li> <li>• Forward looking adjustments.</li> <li>• Provisions raised on specific outstanding debtors.</li> <li>• Insured debt collateral.</li> </ul> <p>We identified the impairment allowance for trade accounts receivable as a key audit matter as a result of the judgement required to be applied by the directors.</p> <p>The directors concluded that events due to the COVID-19 pandemic are a non-adjusting subsequent events. The most significant impact of this assessment is that all assets and liabilities including trade accounts receivable are measured based on information as at 29 February 2020.</p>	<p>We concurred with the directors determination that events due to COVID-19 pandemic are a non-adjusting subsequent events.</p> <p>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 detail procedures included:</p> <ul style="list-style-type: none"> <li>• Testing the design and implementation of relevant controls over expected credit loss calculation.</li> <li>• Obtained management's calculations in determining the loss allowance based on the expected credit loss model.</li> <li>• Assessing the assumptions used in the expected credit loss valuation model for reasonableness.</li> <li>• Testing the inputs underpinning the credit loss valuation model to supporting evidence.</li> <li>• Assessing whether the presentation and disclosures of the trade receivables balance is in accordance with the disclosure requirements of IFRS 9.</li> </ul> <p>We found the inputs used to determine impairment allowance for trade accounts receivables to be appropriate.</p> <p>Based on the procedures performed, the presentation and disclosures in respect of the trade receivables balance are consistent with the requirements of IFRS 9.</p>
<p><b>Key audit matter</b></p> <p><b>Financial close and reporting process</b></p> <p>Effective 31 May 2020, the Group CFO resigned as a member of the Board of Adcorp Holdings Limited.</p> <p>At the time of the resignation of the Group CFO, the audit of the key judgements and estimates were still in progress and had to be completed with the existing management team. This change also impacted the finalisation of the consolidation process and the preparation of the consolidated financial statements.</p> <p>The functional Board and Audit and Risk Committee remain the primary oversight for the preparation of the consolidated financial statements.</p> <p>The factors noted above resulted in an increase in the level of complexity relating to the financial close and reporting process, and this has resulted in a key audit matter being identified.</p>	<p><b>How the matter was addressed in the audit</b></p> <p>Based on the changes in executive management responsible for the financial reporting process we reassessed the engagement risk and adjusted our audit procedures accordingly.</p> <p>To address this key audit matter (KAM), we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Assessing the design and implementation of key controls over the financial close and reporting process.</li> <li>• Performing detail tests on the consolidation journals to ensure that there have been validly recorded.</li> <li>• Assessing the key judgements as noted in the KAMs above.</li> <li>• Performing risk reviews on the consolidated financial statements to ensure that the adequate level of disclosure are included in the consolidated financial statements. We concur that the key judgements and estimates in the above KAMs are appropriately disclosed in the consolidated financial statements.</li> </ul> <p>Based on the procedures performed, we did not identify material misstatements in the key judgements and estimates. In addition, the presentation and disclosures in the consolidated financial statements is considered to be appropriate.</p>

## Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled 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, which we obtained prior to the date of this report and the documents titled Adcorp Limited Separate Financial statements for the year ended 29 February 2020 and the Integrated Annual Report 2020, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

## Independent auditor's report continued

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 consolidated and 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

29 June 2020

5 Magwa Crescent

2066

Midrand

South Africa

# Report of the Audit and Risk Committee

## for the year ended 29 February 2020

The Group'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. Further information can be found in the transparency and accountability section.

### 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 consolidated 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.
- Recommend the consolidated financial statements for report 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 Group 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 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 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 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 Group's accounting policies and the consolidated financial statements for the year ended 29 February 2020 and is satisfied that they are appropriate and comply in all respects with IFRS. The committee supports the opinion of the Board and the external auditor with regard to the consolidated financial statements which have been approved by the Board and will be presented to shareholders at the annual general meeting to be held on 28 August 2020.

# Report of the Audit and Risk Committee continued

## for the year ended 29 February 2020

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 consolidated financial statements in accordance with IFRS and maintaining accountability for the Group's assets and liabilities.

### Integrated annual report

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

Accordingly, the committee:

- Has considered the 2019 consolidated financial statements and has assessed the consistency with operational, financial and other information known to the committee members, and for consistency with the consolidated financial statements;
- Is satisfied that the 2019 consolidated financial statements are materially accurate, complete and reliable and consistent with the consolidated financial statements; and
- Recommended on 15 June 2020, the 2020 consolidated 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 Group. 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 group set up by management to review combined assurance for Adcorp. Designing, implementing and maintaining robust risk management structures in the Group 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 Group has occurred during the year and up to the date of this report.

### Internal audit

The position of Group Chief Audit Executive was impacted by the organisational rightsizing 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 Audit and Risk Committee has considered various elements of the consolidated financial statements that require judgement and provide additional commentary on following:

- Going concern.
- Goodwill impairment assessment.
- Deferred tax assets raised on tax losses.
- Expected credit loss provision on trade receivables.
- First-time adoption of IFRS 16 *Leases*.
- Financial reporting and close process.

### Going concern

In preparing the consolidated Group financial statements, the directors are responsible for evaluating the Group'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 Group'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 in note 37.

The directors are satisfied that there are no material uncertainties that cast doubt on the Group or Company's ability to operate as a going concern and that the Group and 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.

### Goodwill and intangible assets

Management performed the annual assessment for impairment on Goodwill. The methodology, inputs, assumptions made and results of the assessment performed can be summarised as follows:

			Post-tax discount rate	Terminal growth rate applied	Headroom calculated (R)	Impairment recognised (R)
CGU	Valuation model					
South Africa	Industrial Services	Discounted cash flow model	18 – 20.08%	0%	—	212.70 m
	Financial Services	Discounted cash flow model	16.56%	3%	+ 67 m	—
	Professional Services	Discounted cash flow model	18.6%	3%	—	212.4 m



**Goodwill and intangible assets** continued

	CGU	Valuation model	Post-tax discount rate	Terminal growth rate applied	Headroom calculated (R)	Impairment recognised (R)
Australia	Industrial Services	Discounted cash flow model	11.51 – 14%	2 – 2.5%	—	132.8 m
	Professional Services	Discounted cash flow model	12%	2 – 2.5%	+ 56 m	—

\* Goodwill allocated to the CGUs was impaired at the Group's half-year reporting date following indicators of impairment. Refer to note 7 in the annual financial statements for a detailed analysis of the factors, inputs and outcomes of results of impairment testing at both half-year and full-year reporting dates.

**Deferred tax assets on tax losses**

The Group operates in different jurisdictions with complex tax legislation requiring judgements in recognising tax liabilities. There are also judgements needed in recognising deferred tax assets. The effective tax rate of -16% (2019: 12%) is mainly due to tax losses that arose in prior financial years and are now being utilised as the Group consolidates on its return to profitability. The committee has applied its mind to the assumptions made in determining the recognition of the deferred tax assets and is satisfied as to the recoverability. A detailed view of the tax position of the Group is provided in notes 9 and 10 in the consolidated financial statements.

**Expected credit losses provision on accounts receivable**

The Group applies the IFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance (ECL) for all trade and other receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of time and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The measurement of the ECLs also reflects the recovery expected from any credit risk insurance relating to the asset. Refer to note 12 in the consolidated financial statements for further information.

**First-time adoption of IFRS 16 Leases**

In the current year, the Group, for the first time, has applied IFRS 16 *Leases*. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. This fundamentally changes how the Group will recognise operating leases where the Group is the lessee. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The date of initial application of IFRS 16 for the Group is 1 March 2019. The Group elected to adopt IFRS 16 *Leases* prospectively from 1 March 2019 using the modified retrospective approach without restating comparative figures. The incremental borrowing rate applied is the rate of interest that the Group would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Refer to notes 2 and 6 of the consolidated financial statements for further information.

**Financial close and reporting process**

Key changes in the Group's finance executive office had led to a number of key judgements and estimates that impacted consolidation and reporting process. The committee continued to actively support the finance operations as the oversight body in the preparation of the consolidated financial statements.

The Group is in the process of recruiting a permanent CFO. An interim CFO was appointed on 15 June 2020.

The Group considered the impact of the COVID-19 pandemic on the financial results, as well as subsequent to the reporting period. Refer to note 36 of the consolidated financial statements.

**Evaluation of the 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.

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

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.



**SN Mabaso-Koyana**  
Chairman, Audit and Risk Committee

26 June 2020

# Directors' report

## for the year ended 29 February 2020

The directors have pleasure in submitting their report and consolidated financial statements for the year ended 29 February 2020.

### Nature of business

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.

### Share capital

The authorised share capital is 183 177 151 ordinary shares of 2.5 cents per share. The issued share capital of the Group at 28 February 2019 was 109 954 675 shares of 2.5 cents per share.

Movements in share capital and share premium during the year are shown in note 15.

### Dividend

During the year one of the Group's subsidiaries in Australia paid dividends to its minority shareholders.

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

### Special resolutions

At the annual general meeting (AGM) held on 30 July 2019, Adcorp's shareholders passed the following special resolutions for the purposes indicated:

- Special resolution 1: To approve the remuneration payable to non-executive directors for their services as directors.
- Special resolution 2: To approve that the Company and/or any subsidiary of the Company be authorised to repurchase shares issued by the Company, capped at 10% of issued share capital.
- Special resolution 3: To approve, in terms of section 44 read with section 45 of the Companies Act of South Africa, that the Company provide financial assistance for the provision of any loans or other financial assistance to present or future related and inter-related companies.

### Statutory information

The Company was incorporated in the Republic of South Africa on 16 July 1974. The registration number is 1974/001804/06.

### Directorate and secretary

The directors during the year are as follows:

Name	Current year appointments and resignations
<b>Directors during the year</b>	
GT Serobe	
P Mnganga	
GP Dingaan	
I Dutiro	Resigned 08 October 2019
H Singh	
CJ Kujenga	Resigned 31 May 2020
SN Mabaso-Koyana	
C Maswanganyi	
TP Moeketsi	Resigned 06 June 2019
ME Mthunzi	Resigned 06 June 2019
FS Mufamadi	
S Sithole	
MW Spicer	
P Roux	Appointed 23 April 2020
MM Nkosi	Appointed 06 June 2019, previously alternate director
R van Dijk	Appointed 06 June 2019
C Smith	Appointed 10 January 2020
M Lubega	Appointed 01 July 2020
<b>Company secretary</b>	
Z Lachporia	Appointed 08 July 2019, resigned 25 July 2019
Fluidrock Co Sec Proprietary Limited	Appointed 25 July 2019, resigned 30 April 2020
L Laporte	Appointed 01 May 2020

## Directors' remuneration and interests held

Details of directors' remuneration and interests held in shares appear on notes 26 to 28 of the consolidated financial statements.

## Directors' interest in contracts

No material contracts involving directors' interests were entered into in the current year. The directors had no interest in any third party or company responsible for managing any of the business activities of Adcorp.

## Events after reporting date

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 Group 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 Group reporting a breach in covenants in the measurement period ending 29 February 2020. The Group reported non-compliance in the following areas:

- Leverage ratio exceeding the covenant standard.
- 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 Group 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 to R400 million by June 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 Group 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 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 such a non-adjusting event. The impact of COVID-19 on accounting standards that require the use of forward-looking information (expected credit losses and goodwill impairment) 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 Group by taking a number of factors into consideration, including the macro-economic impact as well as the future revenue of the Group. Consideration was given to the cost structure of the Group and restructuring activities have commenced in order to decrease the cost base. The Group forecasts were stress tested. Further detail around the three scenarios management investigated can be found in note 37.

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

## Directors' report continued for the year ended 29 February 2020

expenses and 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 Group.

### Going concern

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

### Solvency

We draw attention to the fact that at 29 February 2020, the Group had accumulated losses of R650 956 and that the Group's total assets exceed its liabilities by R1 175 747.

### 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 and the debt extension and reduction of the Group. Collectively, these indicate that the Group 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 through the sales of non-core assets.
- Positive results from the restructuring initiatives to turn around the underlying business.

### Debt reduction

The Group 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 Group 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 entities in 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.

### Going Concern Conclusion

The Board is focused and committed to the restructuring initiatives and debt reduction of the Group. The directors are also of the view that there are no material uncertainties that cast doubt on the Group's ability to operate. The directors are also satisfied that the Group 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 Group will not be a going concern for the foreseeable future.

### 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.

### Company Secretary

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.

### 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.

# Consolidated statement of financial position

as at 29 February 2020

	Notes	2020 R'000	2019 R'000
<b>Assets</b>			
<b>Non-current assets</b>		<b>1 532 497</b>	1 711 896
Property and equipment	4	72 212	57 647
Intangible assets	5	210 968	231 601
Right-of-use assets	6	414 917	—
Goodwill	7	635 609	1 188 811
Investment – Fair value	8	17 620	15 247
Deferred taxation	9	181 171	218 590
<b>Current assets</b>		<b>2 358 770</b>	2 647 253
Trade receivables	12	1 924 851	2 086 490
Other receivables	13	91 849	103 712
Investment – amortised cost	8	4 431	2 992
Taxation prepaid	11	18 485	87 202
Cash and cash equivalents	14	319 154	366 857
Non-current assets held for sale and assets of disposal groups	3	116 039	—
<b>Total assets</b>		<b>4 007 306</b>	4 359 149
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>		<b>1 175 747</b>	1 905 474
Share capital and share premium	15	1 740 858	1 740 858
Treasury shares	15	(68 083)	(38 233)
Reserves	16	(497 028)	202 849
<b>Interest-bearing liabilities</b>		<b>1 499 344</b>	892 189
<b>Non-current liabilities</b>		<b>404 021</b>	697 126
Long-term loans	17	—	690 466
Lease liabilities	6	404 021	—
Provisions		—	6 660
<b>Current liabilities</b>		<b>1 095 323</b>	195 063
Short-term portion of long-term loans	17	1 001 684	194 836
Lease liabilities	6	93 457	—
Bank overdraft	14	182	227
<b>Non-interest-bearing liabilities</b>		<b>1 293 356</b>	1 561 486
<b>Non-current liabilities</b>		<b>85 655</b>	104 077
Deferred taxation	9	85 655	104 077
<b>Current liabilities</b>		<b>1 207 701</b>	1 457 409
Trade and other payables including IFRS 15 contract liabilities	18	1 010 646	1 111 233
Provisions	19	162 429	286 663
Taxation payable	11	34 626	59 513
Liabilities of disposal groups	3	38 859	—
<b>Total equity and liabilities</b>		<b>4 007 306</b>	4 359 149



# Consolidated statement of profit or loss

## for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000
<b>Continuing operations</b>			
<b>Revenue</b>	20	<b>13 058 347</b>	14 526 509
Cost of sales		<b>(11 495 905)</b>	(12 530 028)
<b>Gross profit</b>		<b>1 562 442</b>	1 966 481
Other income	21	<b>28 302</b>	44 678
Operating expenses		<b>(1 250 157)</b>	(1 582 707)
<b>Earnings before depreciation and amortisation</b>		<b>340 587</b>	458 452
Depreciation and amortisation		<b>(145 305)</b>	(79 416)
<b>Operating profit</b>		<b>195 282</b>	379 036
Interest income	23	<b>22 592</b>	21 031
Interest expense	24	<b>(128 091)</b>	(104 728)
Impairment expense		<b>(613 373)</b>	(6 821)
Net profits from the sale of entities	32	<b>(715)</b>	574
<b>(Loss)/profit before taxation</b>		<b>(524 305)</b>	289 092
Taxation expense	10	<b>(84 226)</b>	(32 808)
<b>(Loss)/profit for the year from continuing operations</b>		<b>(608 531)</b>	256 284
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	3	<b>4 781</b>	5 861
<b>(Loss)/profit for the year</b>		<b>(603 750)</b>	262 145
<b>(Loss)/profit attributable to:</b>			
Owners of the parent from continuing operations		<b>(608 845)</b>	255 811
Owners of the parent discontinued operations		<b>4 781</b>	5 861
Non-controlling interest		<b>314</b>	473
<b>Continuing operations</b>	25		
Basic (loss)/earnings per share – cents		<b>(565.1)</b>	234.6
Diluted (loss)/earnings per share – cents		<b>(565.1)</b>	228.9
<b>Discontinued operations</b>	25		
Basic earnings per share – cents		<b>4.4</b>	5.4
Diluted earnings per share – cents		<b>4.4</b>	5.2
<b>Total basic (loss)/earnings per share</b>			
Basic (loss)/earnings per share – cents	25	<b>(560.7)</b>	240
Diluted (loss)/earnings per share – cents		<b>(560.7)</b>	234.1

\* FY2019 restated on the classification of Dare Holdings Proprietary Limited – Australia as a discontinued operation. Refer to note 3 Discontinued operations.

## Consolidated statement of other comprehensive income

for the year ended 29 February 2020

	2020 R'000	Restated* 2019 R'000
<b>Continuing operations</b>		
<b>(Loss)/profit for the year</b>	<b>(603 750)</b>	262 145
<b>Other comprehensive income/(loss)**</b>		
Exchange differences on translating foreign operations	<b>(4 109)</b>	3 975
Exchange differences arising on the net investment of a foreign operation	<b>6 582</b>	23 527
<b>Discontinued operations</b>		
Exchange differences on translating foreign operations	<b>1 282</b>	6 799
Other comprehensive income for the year, net of tax	<b>3 755</b>	34 301
<b>Total comprehensive (loss)/income for the year</b>	<b>(599 995)</b>	296 446
<b>Total comprehensive (loss)/income attributable to:</b>		
Owners of the parent continuing operations	<b>(606 372)</b>	283 313
Owners of the parent discontinued operations	<b>6 063</b>	12 660
Non-controlling interest	<b>314</b>	473

\* FY2019 restated on the reclassification of Dare Holdings Proprietary Limited – Australia as a discontinued operation. Refer to note 4 Discontinued operation

\*\* All items included in other comprehensive income/(loss) will be reclassified to profit and loss upon derecognition.

## Consolidated statement of changes in equity

for the year ended 29 February 2020

	Share capital R'000	Share premium R'000	Treasury shares R'000	Share-based payment reserve R'000
<b>Balance as at 28 February 2018</b>	15.1	15.1	15.2	16.2
Recognition of B-BBEE and staff share-based payments	2 749	1 738 109	(23 002)	137 310
Treasury shares acquired	—	—	(15 231)	24 464
Dividend distributions	—	—	—	—
Profit for the year	—	—	—	—
Other comprehensive income	—	—	—	—
Equity due to change in control	—	—	—	—
<b>Balance as at 28 February 2019</b>	2 749	1 738 109	(38 233)	161 774
Recognition of B-BBEE and staff share-based payments	—	—	—	5 020
Treasury shares acquired	—	—	(29 850)	—
Dividend distributions	—	—	—	—
Profit for the year	—	—	—	—
Other comprehensive income	—	—	—	—
Equity due to change in control	—	—	—	—
<b>Balance as at 29 February 2020</b>	<b>2 749</b>	<b>1 738 109</b>	<b>(68 083)</b>	<b>166 794</b>

Foreign currency translation reserve R'000	Retained earnings R'000	Attributable to equity holders of the parent R'000	Non- controlling interest R'000	Employee's share option scheme reserve R'000	Total R'000
16.1					
(26 388)	(230 773)	1 598 005	3 908	676	1 602 589
—	—	24 464	—	—	24 464
—	—	(15 231)	—	—	(15 231)
—	(2 234)	(2 234)	—	—	(2 234)
—	261 672	261 672	473	—	262 145
10 774	23 527	34 301	—	—	34 301
		—	(560)	—	(560)
(15 614)	52 192	1 900 977	3 821	676	1 905 474
—	—	5 020	—	—	5 020
—	—	(29 850)	—	—	(29 850)
—	(105 666)	(105 666)	—	—	(105 666)
—	(604 064)	(604 064)	314	—	(603 750)
(2 827)	6 582	3 755	—	—	3 755
—	—	—	764	—	764
(18 441)	(650 956)	1 170 172	4 899	676	1 175 747

# Consolidated statement of cash flows

## for the year ended 29 February 2020

	Notes	2020 R'000	2019 R'000
<b>Operating activities</b>			
Profit/(loss) before taxation		(517 864)	297 723
From continuing operations		(524 305)	289 092
From discontinued operations	3	6 441	8 631
<b>Adjusted for:</b>			
Depreciation and amortisation	4 and 5	29 193	25 845
Depreciation: right-of-use assets		62 777	—
Foreign currency exchange gains		—	(25 236)
Interest income	3	6	(3 752)
Impairment of financial asset		16 589	25 407
Amortisation of intangibles		53 335	53 571
Impairment of intangible assets and goodwill	7	558 081	6 821
Impairment of right-of-use assets	6	38 703	—
Loss on the sale of property and equipment		(209)	(803)
Share-based payments	16.2	5 020	24 464
Unrealised foreign exchange loss		(14 559)	(1 514)
Non-cash portion of operating lease rentals		—	(3 417)
Profit/(loss) on sale of associate		715	(574)
Net movement on assets held for sale	3	—	(18 811)
Fair value adjustment	8.1	(2 373)	(2 003)
Other non-cash items		12 065	(4 639)
Decrease in bad debt provision	12	(8 418)	(14 127)
Interest income	23	(22 592)	(21 031)
Interest expense	24	128 091	104 624
<b>Cash generated from operations before working capital changes</b>		<b>338 560</b>	<b>442 548</b>
Decrease in trade and other receivables	12 and 13	70 097	173 683
(Decrease) in trade and other payables including IFRS 15 contract liabilities	18	(62 862)	(113 797)
(Decrease)/increase in provisions	19	(130 894)	6 121
Other non-cash items		(1 837)	(8 541)
<b>Cash generated by operations</b>		<b>213 064</b>	<b>500 014</b>
Interest income	23	22 592	24 783
Interest expense	24	(90 832)	(104 624)
Interest expense on lease liability		(37 259)	—
Cash settlement of share options exercised		—	(8 133)
Taxation paid	11	(20 025)	(59 550)
Dividend paid	30	(105 666)	(2 234)
<b>Net cash generated (utilised) by operating activities</b>		<b>(18 126)</b>	<b>350 256</b>

	Notes	2020 R'000	2019 R'000
<b>Investing activities</b>			
Additions to property, equipment and intangible assets	4 and 5	(101 104)	(32 138)
Proceeds from sale of property and equipment		26 014	5 083
Proceeds from other financial assets	8	2 378	32 508
Net cash inflow on disposal of associate		—	1 000
Net cash inflow from disposal of subsidiary		—	10 250
<b>Net cash generated (utilised) from investing activities</b>		<b>(72 712)</b>	<b>16 703</b>
<b>Financing activities</b>			
Payment from the issue of treasury shares	15.2	(29 850)	(15 231)
Repayment of borrowings	17	(1 122 930)	(1 366 966)
Proceeds from borrowings	17	1 235 298	1 033 216
Repayment of lease liabilities	6	(35 417)	—
<b>Net cash utilised by financing activities</b>		<b>47 101</b>	<b>(348 981)</b>
Net (decrease)/increase in cash and cash equivalents		<b>(43 737)</b>	<b>17 978</b>
Cash and cash equivalents at the beginning of period/year	14	<b>366 630</b>	<b>348 652</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>14</b>	<b>322 893</b>	<b>366 630</b>



# Segment report

## for the year ended 29 February 2020

Information reported to the Group's Chief Executive (the Chief Operating Decision Maker (CODM)) for the purposes of resource allocation and assessment of segment performance is focused on the different service offerings and geographical region of operations. The Group's reportable segments under IFRS 8 are therefore as follows:

### **Industrial Services**

This operating segment provides industrial staffing solutions in the "blue collar" and technical areas and places assignees such as engineers, project support staff, artisans, construction workers, logistics, manufacturing and warehousing staff.

### **Support Services**

This operating segment provides support staffing solutions in 'white collar' areas, such as nursing, clerical, administration, office and call centre positions.

### **Professional Services**

This operating segment provides highly skilled IT and digitally focused professionals. It also delivers consulting, project and management services in a number of specialist domains.

### **Training**

This operating segment facilitates training and provides solutions to external clients and support to other Adcorp service lines.

### **Financial Services**

The operating segment offers affordable, pay-as-you-go financial service and lifestyle benefit solutions customised for the Group's assignee base as well as external clients.

## Central

A Central Segment plays a pivotal support role in the execution and the handling of specialised operational services such as finance, human resources, payroll, IT, legal, risk, compliance and marketing. This segment acts as a service Centre for all other operating segments in the Group in order to identify efficiencies that will reduce costs and create a higher degree of strategic flexibility and support.

The geographic segment report is disclosed as (a) International (being operations in Australia) and (b) South Africa.

Segment profit represents the profit earned by each segment without allocation of the share of profits of associates and joint ventures, central administration costs including directors' salaries, finance income, non-operating gains and losses in respect of financial instruments and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance. For the purposes of monitoring segment performance and allocating resources between segments the Group's Chief Executive monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of investments in associates and joint ventures, other financial assets (except for trade and other receivables) and tax assets. Goodwill has been allocated to reportable segments as described in note 7. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

Transactions between segments follow the Group's accounting policies.

No single customer contributes more than 10% of the Group's revenue.

Goodwill impairments recognised during the year relate to the Industrial and Professional Services segments in both South Africa and Australia. Refer to note 7 for detailed disclosures.

# Segment report continued

for the year ended 29 February 2020

		Industrial		South Africa – Support Services	Professional Services		South Africa – Training	
		South Africa	Australia		South Africa	Australia		
Revenue								
- 2020	(R'000)	5 541 907	779 983	939 910	1 766 491	3 751 071	142 963	
- 2019	(R'000)	5 980 971	1 084 009	1 371 072	1 935 706	3 839 095	166 005	
Internal revenue								
- 2020	(R'000)	217 959	—	10 292	1 162	—	6 534	
- 2019	(R'000)	199 250	—	434 476	1 560	—	8 077	
Operating profit (loss)								
- 2020	(R'000)	146 458	(5 851)	(49 211)	29 671	87 227	7 849	
- 2019	(R'000)	339 768	40 410	46 513	180 632	110 967	3 836	
EBITDA								
- 2020	(R'000)	301 861	(4 145)	14 001	125 201	91 463	22 413	
- 2019	(R'000)	344 005	42 416	49 387	188 552	116 142	5 806	
Depreciation and amortisation								
- 2020	(R'000)	12 376	1 705	2 733	38 822	17 033	4 588	
- 2019	(R'000)	4 243	2 007	2 877	23 707	5 175	1 970	
Interest income								
- 2020	(R'000)	73 342	3	13 281	25 828	—	7	
- 2019	(R'000)	76 191	110	13 281	27 217	7	190	
Interest expense								
- 2020	(R'000)	(38 078)	(1)	(11 102)	(4 111)	—	(4 048)	
- 2019	(R'000)	(48 406)	—	(9 988)	(4 755)	—	(4 401)	
Taxation expense (income)								
- 2020	(R'000)	(30 660)	(2 082)	15 523	13 576	26 634	(1 956)	
- 2019	(R'000)	(68 452)	15 165	(17 461)	22 384	26 797	(11 621)	
Asset carrying value from continuing operations*								
- 2020	(R'000)	1 272 923	110 011	130 073	648 962	588 122	58 687	
- 2019	(R'000)	1 305 993	198 897	243 865	704 299	584 444	60 177	
Liabilities carrying value**								
- 2020	(R'000)	398 522	23 370	55 910	283 084	342 013	133 969	
- 2019	(R'000)	529 172	49 978	74 402	320 427	338 215	130 760	

The table below is provided as a reconciliation between total assets and liabilities (at carrying value) to those that were classified as “held-for-sale”.

	2020 R'000
<i>* Reconciliation of assets carrying value to balance sheet.</i>	
Assets carrying value per the segment report	3 891 267
Assets held for sale – relating to Dare	116 039
Total assets per balance sheet	4 007 306
<i>**Reconciliation of liabilities carrying value to balance sheet.</i>	
Liabilities carrying value per the segment report	2 792 700
Liabilities held for sale – relating to Dare	38 859
Total liabilities per balance sheet	2 831 559

	South Africa – Financial Services	Subtotal	Central			South Africa	International	Total
			South Africa	Australia	Total			
	<b>136 022</b>	<b>13 058 347</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>8 527 293</b>	<b>4 531 054</b>	<b>13 058 347</b>
	149 336	14 526 194	315	—	315	9 603 405	4 923 104	14 526 509
	<b>—</b>	<b>235 947</b>	<b>16 523</b>	<b>—</b>	<b>16 523</b>	<b>252 470</b>	<b>—</b>	<b>252 470</b>
	—	643 363	13 609	—	13 609	656 972	—	656 972
	<b>53 411</b>	<b>269 554</b>	<b>(23 581)</b>	<b>(50 691)</b>	<b>(74 272)</b>	<b>164 597</b>	<b>30 685</b>	<b>195 282</b>
	63 389	785 515	(360 117)	(46 363)	(406 480)	274 021	105 014	379 035
	<b>69 295</b>	<b>620 089</b>	<b>(264 712)</b>	<b>(14 790)</b>	<b>(279 502)</b>	<b>268 059</b>	<b>72 528</b>	<b>340 587</b>
	65 189	811 497	(329 762)	(23 284)	(353 046)	323 177	135 274	458 451
	<b>3 308</b>	<b>80 565</b>	<b>41 382</b>	<b>23 358</b>	<b>64 740</b>	<b>103 209</b>	<b>42 096</b>	<b>145 305</b>
	1 518	41 497	14 738	23 181	37 919	49 053	30 363	79 416
	<b>15 548</b>	<b>128 009</b>	<b>(106 076)</b>	<b>659</b>	<b>(105 417)</b>	<b>21 930</b>	<b>662</b>	<b>22 592</b>
	10 245	127 241	(107 553)	1 343	(106 210)	19 571	1 460	21 031
	<b>(7 311)</b>	<b>(64 651)</b>	<b>(49 196)</b>	<b>(14 244)</b>	<b>(63 440)</b>	<b>(113 846)</b>	<b>(14 245)</b>	<b>(128 091)</b>
	(4 578)	(72 128)	(16 676)	(15 820)	(32 496)	(88 804)	(15 820)	(104 624)
	<b>12 252</b>	<b>33 287</b>	<b>69 643</b>	<b>(18 704)</b>	<b>(50 939)</b>	<b>(78 378)</b>	<b>(5 848)</b>	<b>(84 226)</b>
	16 459	(16 729)	63 727	(11 420)	52 307	5 036	30 542	35 578
	<b>29 810</b>	<b>2 838 588</b>	<b>601 049</b>	<b>451 630</b>	<b>1 052 679</b>	<b>2 741 504</b>	<b>1 149 763</b>	<b>3 891 267</b>
	184 585	3 282 260	558 052	518 837	1 076 889	3 056 971	1 302 178	4 359 149
	<b>17 040</b>	<b>1 253 908</b>	<b>1 286 176</b>	<b>252 616</b>	<b>1 538 792</b>	<b>2 174 701</b>	<b>617 999</b>	<b>2 792 700</b>
	17 470	1 460 424	789 835	203 416	993 251	1 862 066	591 609	2 453 675

	2020 R'000	2019 R'000
<i>Revenue</i>		
Continuing operations	13 058 347	14 526 509
Discontinued operations	480 552	538 932
	<b>13 538 899</b>	15 065 441
<i>Operating profit/(loss)</i>		
Continuing operations	195 282	379 035
Discontinued operations	6 435	30 182
	<b>201 717</b>	409 217

# Notes to the consolidated annual financial statements

## for the year ended 29 February 2020

### Corporate information

Principle activities of the Group and its subsidiaries include the rendering of services in areas that of permanent recruitment and flexible staffing sectors, professional IT services, as well as the provision of business process outsourcing, training and financial services. The Group carries on business in South Africa and Australia.

### 1. Accounting framework

The Group applies all applicable International Financial Reporting Standards (IFRS) in preparation of the consolidated annual financial statements.

Consequently, all IFRS statements that were effective at 29 February 2020 and are relevant to its operations have been applied.

The principal accounting policies applied in the preparation of these consolidated annual financial statements are set in each of the respective notes. Any accounting policies that are general in nature and are applicable to more than one specific note have been disclosed below.

In preparation of the financial statements the Group has assessed materiality for each item on the statement of profit or loss and statement of comprehensive income and statement of financial position. In assessing the materiality of the Group, quantitative and qualitative factors were taken into account. Materiality was determined at R12.5 million.

### New and amended standards and interpretations

The accounting policies applied are consistent with those adopted and disclosed in the Group financial statements for the year ended 29 February 2020. The Group has adopted the following new accounting pronouncements which became effective in the current reporting period:

Standard	Effective date	Possible 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
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i>	01 January 2019	The impact of this standard is set out in the note 2 <i>Changes in accounting policy</i>
IFRS 16 <i>Leases</i>	01 January 2019	The impact of this standard is set out in the note 2 <i>Changes in accounting policy</i>

### Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's financial statements, are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standard	Effective date	Possible 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
COVID-19-Related Rent Concessions – Amendment to IFRS	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
Onerous Contracts: Cost of Fulfilling a Contract	01 January 2020	Unlikely there will be a material impact

## 2. Significant accounting policies

### Statement of compliance

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

### Basis of preparation

The consolidated 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 all companies in the Group. They are presented in rand, which is the Group's functional currency.

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

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

The consolidated financial statements have been prepared on the historic cost convention, except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies on the following pages. These accounting policies are consistent with the previous period, except for the change with respect to the adoption of IFRS 16 *Leases* for the first time, as set out in note 2.1 below.

### 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 values of an asset or a liability, the Group 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 consolidated financial statements is determined on such basis, except for share-based payment transactions that are within scope of IFRS 2, leasing transactions that are within the scope of IFRS 16 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 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. The principal accounting policies are set out below:

### Level of assurance

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 2. Significant accounting policies continued

#### Basis of consolidation continued

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

#### IAS 21 Foreign Exchange Transactions

In preparing the consolidated financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the 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.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into currency units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

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

## 2. Significant accounting policies continued

### IFRS 3 *Business Combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements, are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 2. Significant accounting policies continued

#### IFRS 9 *Financial Instruments*

IFRS 9 is built on a logical, single classification and measurement approach for financial instrument that reflects 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 will result 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 Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. The objective of the impairment requirements is to recognise lifetime expected credit losses 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.

#### Trade receivables

Trade receivables are classified as financial instruments held at amortised cost as the business model is to collect payment of principal and interest. Trade receivables are subsequently measured at amortised cost.

The Group is following the Simplified Approach for impairment in IFRS 9 with impairment losses measured at lifetime Expected Credit Loss (ECL) for trade receivables as there are no significant financing component to trade receivables. The Group uses a specific identification and provision matrix when measuring ECL on the trade receivables.

The Simplified Approach is forward looking and takes into account historical credit losses experience, time value of money and future economic factors including inflation. Losses are recognised in the statement of profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of profit or loss.

The provision is recognised through the use of an allowance account for losses. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income within operating expenses. When a trade receivable is uncollectible, it is written off.

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 or liability is sold or impaired.

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 Group 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.

## 2. Significant accounting policies continued

### Liability 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.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of a good or service transfers to a customer.

### IFRS 16 Leases

The Group assesses whether a contract is, or contains a lease, at the inception of the contract. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### Group as lessee

The Group assessed whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (defined as lease values less than R75 000 for the Group). For short-term and low-value leases, the Group recognised the lease payments as an operating expense on a straight line basis over the term of the lease.

In determining the incremental borrowing rate, the Group made use of recent third-party financing received as a starting point, and adjusted the cost of borrowing to reflect changes in financing conditions since third party financing was received and made adjustments for entity-specific risk within the Group. The determination of the incremental borrowing rate applied to lease transactions is a significant area of judgement and management estimation.

#### Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed lease payments, including in-substance fixed payments, less any lease incentives;
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- Penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when: there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate and a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

### Right-of-use assets

Right-of-use assets are depreciated over the lease term of the underlying asset on a straight-line basis. The Group has not entered into any leasing arrangements that contain the option to purchase leased property. Depreciation starts at the commencement date of a lease.

The Group applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss. The Group tests for impairment of the right-of-use assets on an annual basis when there are indicators of impairment. The Group considers unproductive lease assets for impairment. Refer to note 8 for detailed impairment assessment performed on all leased assets.

For right-of-use assets which are depreciated over their lease terms, the lease terms are presented in the following table:

- Buildings (1 – 12 years)
- Printers (3 – 5 years)

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 2. Significant accounting policies continued

#### 2.1. Change in accounting policy

##### Application of IFRS 16 Leases

In the current year, the Group, for the first time, has applied IFRS 16 *Leases* (as issued by the IASB in January 2016). IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. This fundamentally changes how the Group will recognise operating leases where the Group is the lessee. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The date of initial application of IFRS 16 for the Group is 1 March 2019. The Group elected to adopt IFRS 16 *Leases* prospectively from 1 March 2019 using the modified retrospective approach without restating comparative figures.

The Group primarily leases office buildings and information technology (IT) equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss and represent no change from the previous reporting period's accounting treatment.

Short-term leases have a term of 12 months or less and low-value assets comprise leases with a value below R75 000.

##### *Impact of the new definition of a lease*

The Group elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying IAS 17 and Interpretation 4: Determining Whether an Arrangement Contains a Lease.

In the adoption of the standard, management made certain estimates, assumptions and judgements in the determination of the incremental borrowing rate. The estimate and assumptions made in determination of the IBR affect the reported amounts of assets, liabilities and contingent assets and liabilities at the statement of financial position date as well as reported income and expenses. Although estimates are based on management's best knowledge and judgement of current facts as at the statement of financial position date, the actual outcome may differ.

##### *Impact on Lessee Accounting: Leases previously classified as operating leases*

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

## 2. Significant accounting policies continued

### 2.1. Change in accounting policy continued

#### Application of IFRS 16 *Leases* continued

In applying IFRS 16 for the first time, the Group the practical expedients permitted by the standard. One such expedient allowed by the standard is the use of a single discount rate for leases with reasonably similar characteristics (class). The liability was measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at 1 March 2019. The weighted average incremental borrowing rate applied to the lease liability on 1 March 2019 was 10.3% for South Africa and 3.7% for Australia.

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as at 1 March 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 March 2019 as short-term leases and
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*.

For short-term leases (lease term of 12 months or less) and leases of low value assets, the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

#### *Measurement of right-of-use assets*

The right-of-use assets were measured at the amount equal to the lease liability. The right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease term on a straight-line basis. Lease payments were previously disclosed as operating expenses. Under the right-of-use model, depreciation and interest expense are now disclosed in the summary consolidated income statement. Right-of-use assets are presented as a separate line item on the summary consolidated statement of financial position.

#### *Measurement of lease liabilities*

Lease liabilities are initially measured at the present value of the lease payments and subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Lease liabilities are presented as a separate line item on the summary consolidated statement of financial position.

#### *Impact on financial statements on adoption*

The adoption of IFRS 16 *Leases* had a material impact across the financial statements of the Group. A reconciliation of the disclosed commitments is provided to the present value of the lease liabilities on the date of adoption.

	2020 R'000
Operating lease commitments disclosed as at 28 February 2019	142 627
Discounted using the lessee's incremental borrowing rate of at the date of initial application	159 118
(Add): commitments not disclosed at 28 February 2019	27 061
(Less): short-term and low-value leases not recognised as a liability	(19 593)
Lease liability recognised as at 1 March 2019	166 586



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 2. Significant accounting policies continued

#### 2.1. Change in accounting policy continued

##### Application of IFRS 16 *Leases* continued

The lease liability recognised on 1 March 2019 is classified according to the following payment profiles:

	2020 R'000
Current	65 195
Non-current	101 391
Total lease liability recognised as at 1 March 2019	166 586

Impact of the adoption of IFRS 16 *Leases*, on the consolidated statement of financial position (increase/(decrease):

	2020 R'000
Right-of-use asset	166 586
Lease liability	166 586
Retained earnings impact – 1 March 2019	—

The full year impact of the adoption of the standard is summarised below (with detailed disclosures provided in the individual notes in the notes to the financial statements).

	2020 impact
Right of use assets	414 917
Lease liability	497 478
Retained earnings impact – 29 February 2020	(82 561)

Impact on the summary consolidated statement of financial position ((increase)/decrease):

	2020 impact
Operating expenses	56 178
Earnings before interest, depreciation and amortisation	56 178
Depreciation	(62 777)
Operating profit	(6 599)
Impairment of assets	(38 703)
Interest expense	(37 259)
(Loss)/profit before tax	(82 561)

In the financial year 2019, the Group reported that the impact of IFRS 16 will be as follows:

- Increase in lease asset recognised R86.1 million
- Increase in liabilities recognised R66.5 million
- Net increase in equity R19.6 million

The difference in the actual values and prior period reported values can be attributed to:

- Most of the Group entities moved to one new leased building in Woodmead during September 2019, which was not previously factored in the impact assessment.
- The previous head-office building is now unoccupied and resulted in an impairment of the right-of-use asset.
- The previous calculation used a weighted average cost of capital of 14%, while the average IBR applied in the current year amounts to 10.3%

## 2. Significant accounting policies continued

### 2.1. Change in accounting policy continued

#### **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 Group 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 Group assessed whether the Interpretation had an impact on its consolidated financial statements. Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to deductibility of related party interest. The Group'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 R21 871 978 from deferred tax to current tax in the consolidated financial statements of the Group.

## 3. Discontinued operations

### **Accounting policy**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

### **Dare Holdings Proprietary Limited – Australia**

During December 2019 the Board resolved to dispose of the Group's investment in Dare Holdings Proprietary Limited and negotiations with several interested parties have taken place. The disposal is consistent with the Group's long-term policy to focus its activities on the Group's other businesses.

The Group entered into a sale agreement to dispose of Dare Holdings Proprietary Limited, subject to regulatory conditions. All of these conditions are expected to be settled within 12 months and therefore the subsidiary has been classified as a disposal group held for sale and presented separately in the statement of financial position. The proceeds of disposal are expected to substantially exceed the carrying amount of the related net assets and accordingly no impairment losses have been recognised on the classification of these operations as held for sale.

### **Rest of Africa operations**

The Group disposed of its rest of Africa operations which were disclosed as discontinued operations in 2018. The disposal transaction has been completed and the costs incurred in the current year relate to costs of winding up the operations (including closure of dormant entities).

### **Financial Services**

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 FMS. FMS is a subsidiary of Adcorp Holdings Limited and forms the whole of Financial Services segment. 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 FMS 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 FMS was R53 million.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 3. Discontinued operations continued

#### Rest of Africa operations continued

The financial performance and cash flow information presented below relate to Dare Holdings Proprietary Limited in FY2020 and for the Africa operations in FY2019.

	2020 R'000	Restated 2019 R'000
<b>Profit or loss</b>		
Revenue	480 552	538 932
Cost of sales	(440 612)	(502 766)
Gross profit/(loss)	39 940	36 166
Other income	—	8 203
Foreign currency exchange gains	—	25 236
Operating expenses	(33 505)	(39 423)
Operating profit/(loss)	6 435	30 182
Interest income	6	3 856
Impairments	—	(25 407)
Net loss before tax	6 441	8 631
Taxation	(1 660)	(2 770)
<b>Net profit after tax</b>	<b>4 781</b>	<b>5 861</b>
Other comprehensive income	—	—
Exchange differences arising on translating foreign operations	1 282	6 799
<b>Total comprehensive income</b>	<b>6 063</b>	<b>12 660</b>
Attributable to:		
Dare – Australia	6 063	11 798
Rest of Africa	—	862
	<b>6 063</b>	<b>12 660</b>
The impairments in FY2019, relates to other financial assets, cash and trade receivables on which impairment losses were provided against. The assets are restricted in Angola. Refer to note 8.		
<b>Assets</b>		
<b>Non-current assets held for sale</b>	<b>295</b>	<b>—</b>
Property and equipment	295	—
<b>Current assets held for sale</b>	<b>115 744</b>	<b>—</b>
Trade and other receivables	111 823	—
Cash	3 921	—
<b>Total</b>	<b>116 039</b>	<b>—</b>
<b>Non-current liabilities associated with assets classified as held for sale</b>	<b>37 725</b>	<b>—</b>
Trade and other payables	37 725	—
Provisions	—	—
Tax payable	1 134	—
<b>Total</b>	<b>38 859</b>	<b>—</b>

The net cash flows incurred by Dare Holdings Proprietary Limited are, as follows:

	2020 R'000	2019 R'000
Cash flow from discontinued operations		
Net cash outflow from operating activities	(24 956)	40 338
Net cash outflow from financing activities	(147)	(217)
Net cash (outflow)/inflow	(25 103)	40 121

## 4. Property and equipment

### Accounting policy

Property leasehold improvements, equipment, furniture and fittings are initially recognised at cost and thereafter stated at cost, net of accumulated depreciation and accumulated impairment losses.

When significant parts of property and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognised in profit or loss as incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. At the end of each reporting period, the Group reviews the carrying value of property and equipment to determine whether there is an indication of impairment. If there is an indication of impairment, the recoverable amount is estimated in order to determine the extent of the impairment loss. 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.

### Key estimates and judgements

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Computer and office equipment	20% – 33%
Furniture and fittings	10% – 16.7%
Leasehold improvements	over the lease period

### COVID-19 impact:

The Group has assessed the impact of the COVID-19 pandemic on the assumptions and significant judgements made in the valuation of items of property plant and equipment. Following the assessment of a number of factors considered in the Group's COVID-19 response plan, the directors have determined that the anticipated impact of COVID-19 will not have a lasting impact on the productivity of the Group's property, plant and equipment. Management has determined that the economic events that have transpired as a result of the COVID-19 pandemic are not an adjusting event (refer to note 36 Events after reporting period).

In assessing the potential future impact of COVID-19 on the value of the items of property, plant and equipment, the directors considered the following factors:

- The Group continues to be engaged in the provision of services to clients and customers with a number of the businesses servicing essential businesses and a number of the Group's customers returning to productivity as the lockdown restrictions are lifted. Due to nature of the services offered, the Group's reliance on items of property, plant and equipment in the delivery of the services is not significant. The Group anticipates return to normal trading within the medium term, thus the impact on the expected productivity of the assets (coupled with the decreased market interest rates below) will not yield significant decrease in the value of the items of property, plant and equipment.
- The directors assessed the Group as a going concern and plan to continue to use items of property, plant and equipment to support the revenue generating activities of the Group (refer to note 37 Going Concern). Due to the planned use of the assets, the planned productivity of the assets has not been significantly (negatively) impacted.

Although management expects that any changes in the value of the items of property, plant and equipment assets to be immaterial in the medium term.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 4. Property and equipment continued

#### Reconciliation of beginning and ending balances by classes of assets

	Leasehold improvements 2020 R'000	Computer and office equipment, furniture and fittings, and work in progress 2020 R'000	Total 2020 R'000	Total 2019 R'000
Balance at the beginning of the year	28 146	29 501	57 647	65 756
Assets at cost	66 311	115 274	181 585	222 372
Accumulated depreciation	(38 165)	(85 773)	(123 938)	(156 616)
<b>Current year movements</b>				
Classified as held for sale	(295)		(295)	
Additions	15 725	53 880	69 605	25 195
Effect of foreign currency exchange differences	156	151	307	(3 179)
Cost	156	430	586	4 623
Accumulated depreciation		(279)	(279)	(7 802)
Disposals	(1 265)	(24 594)	(25 859)	(4 280)
Cost	(9 416)	(25 876)	(35 292)	(70 605)
Accumulated depreciation	8 151	1 282	9 433	66 325
Depreciation	(8 993)	(20 200)	(29 193)	(25 845)
<b>Net book value at the end of the year</b>	<b>33 474</b>	<b>38 738</b>	<b>72 212</b>	<b>57 647</b>
Represented by:				
Assets at cost	72 481	143 708	216 189	181 585
Accumulated depreciation	(39 007)	(104 970)	(143 977)	(123 938)
<b>Net book value at the end of the year</b>	<b>33 474</b>	<b>38 738</b>	<b>72 212</b>	<b>57 647</b>

Registers with details of land and buildings are available for inspection by shareholders or their duly authorised representatives at the registered office of the Group.

## 5. Intangible assets

### Accounting policy

#### Intangible assets acquired separately

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

#### Internally generated intangible assets

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised when all of the following can be demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 5. Intangible assets continued

#### Accounting policy continued

#### Internally generated intangible assets continued

#### Reconciliation of beginning and ending balances by classes of assets

	Capitalised development 2020 R'000	Trademarks 2020 R'000	Customer base 2020 R'000	Other 2020 R'000	Total 2020 R'000	Total 2019 R'000
<b>Intangible assets</b>						
<b>Balance at the beginning of the year</b>	49 621	56 153	113 776	12 051	231 601	275 785
Assets at cost	317 708	219 571	770 918	77 551	1 385 748	1 388 127
Accumulated amortisation	(268 566)	(166 026)	(675 071)	(65 500)	(1 175 163)	(1 128 305)
Foreign exchange movements	479	2 608	17 929	—	21 016	15 963
Additions	31 499	—	—	—	31 499	6 943
Disposal	—	—	—	—	—	(2 609)
Amortisation expense	(10 689)	(8 413)	(31 789)	(2 444)	(53 335)	(53 571)
Impairment loss recognised in profit or loss	—	—	—	—	—	—
Foreign exchange movements	—	813	390	—	1 203	5 053
<b>Net book value at the end of the year</b>	<b>70 431</b>	<b>48 553</b>	<b>82 377</b>	<b>9 607</b>	<b>210 968</b>	231 601
Represented by:						
Assets at cost	349 207	219 571	770 918	77 551	1 417 247	1 385 748
Accumulated amortisation and impairments	(279 255)	(174 439)	(706 860)	(67 944)	(1 228 498)	(1 175 163)
Foreign exchange movements	479	3 421	18 319	—	22 219	21 016
<b>Net book value at the end of the year</b>	<b>70 431</b>	<b>48 553</b>	<b>82 377</b>	<b>9 607</b>	<b>210 968</b>	231 601

The capitalised development represents costs incurred to date on the development costs incurred in the enterprise technology transformation project. Prior to commencing of the development activities on the project, the Group incurred R37.3 million in research costs, which are included in operating expenses in the statement of profit or loss.

Other intangible assets relate to:

- Learning programmes, NQF accreditations development and a database valuation;
- A candidate database that was purchased on acquisition of businesses and accreditation of programmes; and
- Accreditation programme costs incurred on accrediting training programmes with the relevant training authorities.

#### Key estimates and judgements

A summary of the policies applied to the Group's intangible assets is as follows:

Useful lives	Development costs Finite (10 to 15 years)	Trademarks Finite (7 to 10 years)	Customer base Finite (13 to 15 years)	Other intangible assets Finite (4 years)
<b>Amortisation method used</b>	Amortised on a straight-line basis over its estimated useful	Amortised on a straight-line basis over its estimated useful	Amortised on a straight-line basis over its estimated useful	Amortised on a straight-line basis over its estimated useful
<b>Internally generated or acquired</b>	Internally generated	Acquired	Acquired	Acquired

## 6. Leases

### Accounting policy

The Group primarily leases office buildings and information technology (IT) equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss and represent no change from the previous reporting period's accounting treatment. Short-term leases have a term of 12 months or less and low-value assets comprise leases with a value below R75 000 per annum.

### Measurement of right-of-use assets

The right-of-use assets were measured at the amount equal to the lease liability. The right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the assets' lease term on a straight-line basis. Lease payments were previously disclosed as operating expenses. Under the right-of-use model, depreciation and interest expense are now disclosed in the summary consolidated income statement.

	<b>Buildings 2020 R'000</b>	<b>Printers 2020 R'000</b>	<b>Total 2020 R'000</b>
Balance as at 1 March 2019 – Adoption	159 409	7 177	166 586
Additions during the year (new leases)	348 609	265	348 874
Depreciation	(59 581)	(3 196)	(62 777)
Impairment	(38 703)	—	(38 703)
Foreign exchange movements	937	—	937
	<b>410 671</b>	<b>4 246</b>	<b>414 917</b>

### Measurement of lease liabilities

Lease liabilities are initially measured at the present value of the lease payments and subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the incremental borrowing rate) and by reducing the carrying amount to reflect lease payments made. Lease liabilities are presented as a separate line item on the summary consolidated statement of financial position.

	<b>Buildings 2020 R'000</b>	<b>Printers 2020 R'000</b>	<b>Total 2020 R'000</b>
Balance as at 1 March 2019 – Adoption	159 409	7 177	166 586
Additions during the year (new leases)	364 851	265	365 116
Repayments	(69 080)	(3 596)	(72 676)
Interest expense	36 656	603	37 259
Foreign exchange movements	1 193	—	1 193
	<b>493 029</b>	<b>4 449</b>	<b>497 478</b>

The Group does not face a significant liquidity risk with regard to its lease liabilities.

	<b>Buildings 2020 R'000</b>	<b>Printers 2020 R'000</b>	<b>Total 2020 R'000</b>
Current liabilities	90 044	3 413	93 457
Non-current liabilities	402 985	1 036	404 021
	<b>493 029</b>	<b>4 449</b>	<b>497 478</b>

### Key estimates and judgements

A summary of the policies applied to the Group's intangible assets is as follows:

#### Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. The Group has elected not to take the extension and termination options into consideration in the lease term, as the Group is in the process of optimising the use of rental properties.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 6. Leases continued

#### Key estimates and judgements continued Incremental borrowing rate

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third-party financing was received.

#### Low-value assets

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise printers. Low-value assets comprise leases with a value below R75 000.

#### Assessment of whether a right-of-use asset is impaired

On three leases, the Group is under obligation to continue to pay the monthly lease payments due to the lessor for the duration of the contract which constitutes an unavoidable cost as defined. The contracts are onerous as the Group expects to receive no further benefits from the properties leased, but is still committed to pay the lessor the future rentals (neither through continuing use nor sublease). As the expected benefits from using the leased asset are less than the unavoidable costs associated with the lease, management deems this an internal indicator of impairment of the ROU asset recognised.

Recoverable amount: the recoverable amount of an asset is the greater of its "fair value less costs to sell" and its "value in use" (IAS 36.6). The recoverable amount is determined for individual assets. However, if an asset does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Independent cash flows: In determining the recoverable amount, management determines that the cash flows generated from the sub-lease of the leased assets are largely independent from all other cash flows generated within the businesses (completely unrelated to the business CGUs). As a result, the cash flows determined in the value in use calculation will be attributable only to the leased asset.

#### Value-in-use calculation

In determining the value in use calculation, management has made the following assumptions/determinations:

- Management has actively pursued activities to market and sublease the leased properties.
- An agent has been appointed to assist the Adcorp Group to market and sub-lease the leased properties.
- The programme to seek a suitable sub-lessee continues with updates being given to management regarding potential lessees.
- Following a detailed programme to sublease the building, management continues to consider the difficulty already experienced in leasing the properties and now considers the options to exit the rental contracts.
- Management will continue to actively advertise the lease properties and exit from the lease contracts.
- Based on the inability to find a suitable tenants in the short and medium term, cash flows on all value in use calculations were determined to be Rnil for the forecast period which resulted in a value in use of Rnil for all three ROU assets.

	2020 R'000
<b>Adcorp entity</b>	
Torque IT	(3 148)
Adcorp Management Services	(34 063)
Adcorp Workforce Solutions Proprietary Limited	(1 492)
<b>Total impairment</b>	<b>(38 703)</b>

#### COVID-19 impact:

The Group executed on its immediate COVID-19 response strategy to secure its cash position through securing rental concessions in the form of one-time rent reductions and deferral of payments from lessors of the properties occupied by the businesses within the Group. The Group's legal department and facilities management departments have successfully arranged deferrals of payment and rent reductions with lessors for the period April to June 2020. The Group was able to defer lease payments to the amount of R3,1 million over the initial three-month period of the COVID-19 response action plan. The deferred lease payments are payable in variable periods (ranging between three and six months) from the month of July and do not result in rent waivers.

While the negotiated rental concessions do not have an impact on the value of the right-of-use assets and related lease liabilities at reporting date, the Group will assess the impact of the rental concessions in order to determine whether the concessions amount to modifications. The impact of the reassessment will be disclosed in the 2021 financial year. At the time of issuing the financial statements, the directors are of the opinion that the impact of the reassessment will be immaterial given the short-term nature of the concession arrangements (three months) and the short-term nature of the concession payback arrangements (immediate three months thereafter).

## 7. Goodwill

### Accounting policy

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill and other indefinite useful-life intangible assets are assessed annually for impairment.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the synergies of the combination.

A cash-generating unit (CGU) to which goodwill has been allocated is tested for impairment annually, or more frequently, when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata, based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The estimated future cash flows and discount rates used are pre-tax based on an assessment of the current risks applicable to the specific CGU.

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.

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which 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.

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 Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU 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 CGUs are discussed further in this note.

### 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 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.

Following observable decline in business results, the Group performed an impairment assessment at 31 August 2019 (on release of the Group's interim financial results). The impairment test performed at 31 August 2019 was followed by the annual impairment test at 29 February 2020. The impairment tests resulted in total impairment of R558 million for the full year.

### Sensitivity analysis

The impairment calculations rates most sensitive to the following assumptions:

- Discount rates
- Terminal growth rates
- Growth rates applied to revenue, operating profits and Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA)

**Anticipated earnings** – Following the decline noted in the market performance of businesses within the Group, the directors 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.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 7. Goodwill continued

#### Sensitivity analysis continued

**Discount rates** – Discount rates represent the current market assessment of the risks specific to each CGU, 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 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. Adjustments to the discount rates were made at both 31 August 2019 (interim results reporting date) and 29 February 2020 to reflect the appropriate level of risk at each of the reporting dates in the financial period.

Reconciliation of beginning and ending balance:

	2020 R'000	2019 R'000
<b>Cost</b>		
Opening balance	1 586 297	1 552 675
Additional amounts recognised from business combinations during the year (refer to note 33)	—	—
Foreign currency adjustment	4 879	33 622
<b>Closing balance</b>	<b>1 591 176</b>	<b>1 586 297</b>
<b>Impairment</b>		
Opening balance	(397 486)	(390 665)
Impairment of goodwill during the year	(558 081)	(6 821)
<b>Closing balance</b>	<b>(955 567)</b>	<b>(397 486)</b>
<b>Carrying amount at the end of the year</b>	<b>635 609</b>	<b>1 188 811</b>
After recognition of impairment losses, the carrying amount of goodwill is attributable to the following material CGUs:		
<b>Industrial Services</b>	<b>142 307</b>	<b>478 818</b>
<b>South Africa</b>	<b>83 109</b>	<b>288 657</b>
Adcorp BLU, a division of Adcorp Workforce Solutions Proprietary Limited	83 109	209 348
Staff U Need, a division of Adcorp Staffing Solutions Proprietary Limited	—	79 309
<b>Australia</b>	<b>59 198</b>	<b>190 161</b>
Labour Solutions Australia Group of Companies	59 198	190 161
<b>Financial Services</b>	<b>148 656</b>	<b>148 656</b>
FMS, a division of Adcorp Support Services Proprietary Limited	148 656	148 656
<b>Professional Services</b>	<b>344 646</b>	<b>561 337</b>
<b>South Africa</b>	<b>128 612</b>	<b>348 331</b>
Adcorp Workforce Management Solutions Proprietary Limited	128 612	341 061
DAV Professional Placement Group, a division of Adcorp Fulfilment Services Proprietary Limited	—	7 270
<b>Australia</b>	<b>216 034</b>	<b>213 006</b>
Paxus Holdings Pte	207 600	204 041
TalentCru Proprietary Limited	8 434	8 965
<b>Total</b>	<b>635 609</b>	<b>1 188 811</b>

**7. Goodwill** continued**Sensitivity analysis** continued**Industrial Services segment CGUs****South Africa****Staff U Need****31 August 2019**

The projected cash flows used in the value-in-use calculation at August 2019 were adjusted to reflect the noticeable decrease in headcount. Further downward adjustments to projected cash flows were made to reflect the additional cost pressures expected over the valuation period. The pre-tax discount rate was 18.00% (FY2019: 16.97%) and cash flows beyond the four years were extrapolated using a 0.00% (2019: 3.00%) terminal growth rate. A full impairment loss of R79 million was recognised (2019: headroom R372 million). As the goodwill associated with the CGU was fully impaired at 31 August 2019, no further assessments of impairment were required on this CGU at 29 February 2020.

**BLU****31 August 2019**

The financial performance of the CGU at 31 August 2019 triggered the requirement to test for impairment of the Goodwill associated to the CGU. Management reviewed the business performance based on the headcount (significant driver of profitability) over a historical 30-month period. A consistent downward trend (25% year on year) was noted following the Constitutional Court ruling on temporary employment service providers. While the valuation is based on the projected sustainable cash flows methodology, the historical financial returns of the CGU 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 20.08% (FY2019: 16.97%) and cash flows beyond the four years were extrapolated using a terminal growth rate of 0.00% (2019: 3.00%). An impairment loss of R126 million was recognised (FY2019: headroom R626 million).

**29 February 2020**

The annual impairment assessment was performed on 29 February 2020. Following the executive changes within the Group, a number of strategic and operational changes were implemented to respond to the challenges that triggered the impairment assessment at 31 August 2019. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts. A four-year horizon is used to project the cash flows. The pre-tax discount rate applied was 20.08% and cash flows beyond the four years were extrapolated using a 0% terminal growth rate. The value in use calculated for the CGU amounted to R451 million. The assessment on 29 February 2020 resulted in a headroom of R24 million.

A change of 10% in projected earnings would result in a valuation difference of R45 million, which would amount to a R21 million impairment if the deviation in earnings was negative.

A change of 1% of the discount rate would result in a R25.5 million difference in the valuation, which would amount to a R2 million impairment if the rate increased by the 1%.

Summary of valuation inputs and outcome:

Reporting date	Terminal growth rate	Discount rate	Opening balance R'000	Calculated impairment R'000	Goodwill – Closing balance R'000	Calculated headroom R'000
31 August 2019	0%	20.08%	209 348	(126 239)	83 109	—
29 February 2020	0%	20.08%	83 109	—	83 109	24 245

**Labour Solutions Australia****31 August 2019**

The economic conditions in the Australian agricultural market significantly affected the CGUs ability to maintain budgeted performance at 31 August 2019. The downturn in the sector and financial results observed as a result, triggered the requirement to test for impairment of the Goodwill associated to the CGU. The valuation is based on the projected sustainable cash flows methodology. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts having factored the expected impact of the agricultural sector's possible recovery in the last six months of the financial year and the four year forecast period. A four year horizon period is used to project the sustainable cash flows. The pre-tax discount rate applied was 11.5% (FY2019: 12%) and cash flows beyond the four years were extrapolated using a 2.5% terminal growth rate (FY2019: 2.5%). An impairment loss of R26.8 million was recognised (FY2019: headroom R164 million).



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 7. Goodwill continued

#### Sensitivity analysis continued

#### Industrial Services segment CGUs Australia continued

#### Labour Solutions Australia continued

#### 29 February 2020

The annual impairment assessment was performed on 29 February 2020. Following additional data around the real impact of the downturn in the agricultural sector, management determined that the initial estimated impact assessed at 31 August 2019 was under estimated. Management has re-estimated the impact of the sector in the cash flow projections and growth prospects. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts which included an updated assessment of observable downturn in the Australian agricultural sector. A four-year horizon is used to project the cash flows. The pre-tax discount rate applied was 14% and cash flows beyond the four years were extrapolated using a 2% terminal growth rate. The value in use calculated for the CGU amounted to R132 million. The assessment on 29 February 2020 resulted in an additional impairment R106 million.

A change of 10% in projected earnings would result in a valuation difference of R16.9 million, which would amount to a R16.9 million impairment if the deviation in earnings was negative.

A change of 1% of the discount rate would result in a R8.2 million difference in the valuation, which would amount to a R8.2 million impairment if the rate increased by the 1%.

Summary of valuation inputs and outcome:

Reporting date	Terminal growth rate	Discount rate	Opening balance R'000	Calculated impairment R'000	Goodwill – Closing balance R'000	Calculated headroom R'000
31 August 2019	2.5%	14.0%	190 161	(26 893)	163 268	—
29 February 2020	2.0%	14.0%	163 268	(104 070)*	59 198	—

\* A foreign currency gain of R1.9 million was realised on the translation of the Goodwill of the CGU. R104 million impairment shown represents the net movement after R106 million impairment and R1.9 million foreign currency exchange gain.

#### Professional Services segment CGUs

#### South Africa

#### Adcorp Workforce Management Solutions Proprietary Limited

#### 31 August 2019

The financial performance of the CGU at 31 August 2019 triggered the requirement to test for impairment of the Goodwill associated to the CGU. Management reviewed the business performance 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 CGU 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 18.04% (FY2019: 16.56%) and cash flows beyond the four years were extrapolated using a 3% terminal growth rate. An impairment loss of R212 million was recognised (FY2019: headroom R9.8 million).

#### 29 February 2020

The annual impairment assessment was performed on 29 February 2020. Following the executive changes within the Group, a number of strategic and operational changes were implemented to respond to the challenges that triggered the impairment assessment at 31 August 2019. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts. A four-year horizon is used to project the cash flows. The pre-tax discount rate applied was 18.60% and cash flows beyond the four years were extrapolated using a 3% terminal growth rate. The value in use calculated for the CGU amounted to R353 million. The assessment on 29 February 2020 resulted in a headroom of R14 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.

**7. Goodwill** continued**Sensitivity analysis** continued**Professional Services segment CGUs** continued**South Africa** continued

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%.

Summary of valuation inputs and outcome:

Reporting date	Terminal growth rate	Discount rate	Opening balance R'000	Calculated impairment R'000	Goodwill – Closing balance R'000	Calculated headroom R'000
31 August 2019	3%	18.04%	341 061	(212 449)	128 612	—
29 February 2020	3%	18.60%	128 612	—	128 612	14 086

**DAV****31 August 2019**

The CGU realised losses at 31 August 2019. Management plans to re-evaluate the business's strategic placing in the market. Due to the changes in the go to market strategy for the business associated with the CGU, management has decided to fully impair the Goodwill associated with the CGU. A full impairment loss of R7.2 million was recognised (FY2019: headroom R51 million). As the goodwill associated with the CGU was fully impaired at 31 August 2019. No further assessments of impairment were required on this CGU at 29 February 2020.

**Australia****Paxus****31 August 2019**

Although there were no indicators of impairment of the CGU at 31 August 2019, management performed an assessment for possible 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 11.5% (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 calculated headroom of R260 million (FY2019: R178 million).

**29 February 2020**

The annual impairment assessment was performed on 29 February 2020. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts. A four-year horizon is used to project the cash flows. The pre-tax discount rate applied was 12% and cash flows beyond the four years were extrapolated using a 2% terminal growth rate. The value in use calculated for the CGU amounted to R561 million. The assessment on 29 February 2020 resulted in a headroom of R56 million.

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%.

Summary of valuation inputs and outcome:

Reporting date	Terminal growth rate	Discount rate	Opening balance R'000	Calculated impairment R'000	Goodwill – Closing balance R'000	Calculated headroom R'000
31 August 2019	2.5%	12.0%	204 041	—	204 041	260 106
29 February 2020	2.0%	12.0%	204 041	—	207 600*	56 164

\* Value of the Goodwill increased due to foreign currency gain of R3.5 million.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 7. Goodwill continued

#### Sensitivity analysis continued

#### Professional Services segment CGUs continued

#### Australia continued

#### 31 August 2019

Although there were no indicators of impairment of the CGU at 31 August 2019, management performed an assessment for possible impairment. The valuation is based on the projected sustainable cash flows methodology, the historical financial returns of the CGU 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 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 headroom of R91.8 million (FY2019: R76 million).

#### 29 February 2020

The annual impairment assessment was performed on 29 February 2020. The valuation is based on the projected sustainable cash flows methodology using the latest budgets and forecasts. A four-year horizon is used to project the cash flows. The pre-tax discount rate applied was 16.56% and cash flows beyond the four years were extrapolated using a 3% terminal growth rate. The value in use calculated for the CGU amounted to R225 million. The assessment on 29 February 2020 resulted in a headroom of R67.2 million.

A change of 10% in projected earnings would result in a valuation difference of R22 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%.

Summary of valuation inputs and outcome:

Reporting date	Terminal growth rate	Discount rate	Opening balance R'000	Calculated impairment R'000	Goodwill – Closing balance R'000	Calculated headroom R'000
31 August 2019	3%	16.56%	148 656	—	148 656	91 809
29 February 2020	3%	16.56%	148 656	—	148 656	67 205

	2020 R'000	2019 R'000
As a result of the annual impairment review, the Group impaired the goodwill in the following cash-generating units:		
<b>Industrial Services</b>		
<b>South Africa</b>		
Staff U Need, a division of Adcorp Staffing Solutions Proprietary Limited	(79 309)	
Adcorp BLU, a division of Adcorp Workforce Solutions Proprietary Limited	(126 239)	
<b>Australia</b>		
Razzbri Proprietary Limited	—	(6 821)
Labour Solutions Australia Group of Companies	(132 813)	
<b>Professional Services</b>		
Adcorp Workforce Management Solutions Proprietary Limited	(212 449)	
DAV Professional Placement Group, a division of Adcorp Fulfilment Services Proprietary Limited	(7 271)	
<b>Total</b>	<b>(558 081)</b>	<b>(6 821)</b>

## 7. Goodwill continued

### COVID-19 considerations and potential impact

As disclosed in note 37 Subsequent Events, the directors have concluded that the COVID-19 is a non-adjusting event at the reporting date. The directors have, therefore, provide information on the sensitivities around the inputs used to determine the recoverable amounts of the CGUs at the end of the financial year. For each of the sensitive inputs, the directors provide the possible impact on the goodwill valuation.

**Discount rates:** The discount rate used in the valuation of the goodwill is the Group's weighted average cost of capital, adjusted for CGU-specific risk. From 29 February 2020 to date of authorising these financial statements for release, the South African Reserve Bank had reduced the repo rate from 6.5% to 3.75%. The directors considered this in the sensitivity analysis around the discount rates. The resulting decrease in the borrowing rate will lead to a higher valuation of the goodwill assets.

**Earnings:** The directors are not able to accurately predict the impact of the COVID-19 pandemic on the earnings used to calculate the recoverable value. A sensitivity of 10% deviation from budgets has been used and disclosed above (relating to each CGU) and impact assessed on each CGU.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amounts have been based would not cause the aggregate carrying amounts to exceed the aggregate recoverable amounts of each of the underlying CGUs.

## 8. Other financial assets

### 8.1 Investment

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

	2020 R'000	2019 R'000
Investment		
Opening balance	15 247	13 244
Fair value gain	2 373	2 003
<b>Closing balance*</b>	<b>17 620</b>	<b>15 247</b>

\* Refer to note 33.5 for additional disclosure relating to the investment.

### Key judgements

#### Investment

Adcorp 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.

The Group has determined that it does not have control over its insurance cell captive as the assets and liabilities are controlled by the insurer. The cell captive has therefore not been consolidated and as the Group is exposed to financial risk rather than insurance risk.

### 8.2 Investment – Amortised cost

On 17 October 2017, the Group invested US\$2 306 145 in a three-year term US\$ linked Government Bond in Angola. The bond (with a coupon rate of 7%, payable every six months) matures in October 2020.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 8. Other financial assets continued

#### 8.2 Investment – Amortised cost continued

	2020 R'000	2019 R'000
<b>Investment – reconciliation of movements</b>		
Balance at the beginning of the year	2 992	22 552
Interest earned	3 235	3 952
Foreign exchange gains/(loss)	14 062	20 114
Payment received on maturity	—	(32 508)
Impairment	(13 480)	(11 118)
Coupon payment	(2 378)	—
Balance as at end of the year	4 431	2 992

The funds in Angola are restricted due to sovereign exchange controls, as a result, the Group's ability to remit money out of the country is limited. As a result, the Group has provided for possible impairment to the restricted Bonds and Cash. Below is the detailed analysis of the bond cost and cash balances currently held in Angola. Further additional information relating to these financial assets is provided in note 14 for the cash resources and note 33.5 for fair value measures both the bond and cash resources currently held in Angola.

	2020 R'000	2019 R'000
<b>Analysis of financial assets restricted in Angola</b>		
Cash and cash equivalents – gross	42 712	53 121
Accumulated impairment provision	(37 607)	(42 150)
Net cash (refer note 14)	5 105	10 971
Investment – amortised cost	36 924	31 676
Accumulated impairment provision	(32 493)	(28 684)
Net investment – amortised cost (refer note 8.2)	4 431	2 992
Total financial assets – Angola	79 636	84 797
Total accumulated impairment provision	(70 100)	(70 834)
Net financial assets	9 536	13 963

#### Credit risk

The carrying amount of the bonds reflected above represents the Group's maximum exposure to credit risk for the receivable as the dollar investment amount is guaranteed.

#### Market risk

As a result of the government bond investments, the Group is exposed primarily to the financial risk of the value of the USD, which is not dissimilar to any other USD-denominated debtor. The carrying value of the bond approximates the fair value.

#### Key judgements

##### Investment – amortised cost

An impairment has been recognised against both the value of the Bonds and the residual cash held by the Group in Angola, as at 29 February 2020. The impairment of the bonds is owing to the Group's broader intention of exiting Angola. The risk of having to face further currency fluctuation is very real considering the current tight foreign exchange restrictions in Angola and the current economic activity. The Group continues to hold the bond and cash until such time as these can be remitted back to South Africa or utilised within Angola. An impairment of the Bonds in Angola has been effected as at 29 February 2020 in order to take into account the possible eventual value of the remittance of funds back to South Africa.

#### COVID-19 impact

Management has considered the impact of the COVID-19 pandemic on the investments in bonds in Angola. The Group has previously taken the view to provide for a potential devaluation of over 80% of the value of the investment in government bonds invested in Angola. Management considers the impact of the COVID-19 pandemic a non-adjusting event to the valuation/measurement of bonds at year end (refer to note 36 Subsequent events). Although the impact of COVID-19 cannot be reasonably quantified on the valuation of the bond, management is confident that it has provided sufficiently for both sovereign cash restrictions and any potential impacts of the COVID-19 pandemic.

## 9. Deferred taxation

### Accounting policy

Deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised.

Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2020 R'000	2019 R'000
The aggregated deferred tax asset/(liability) position is based on a per legal entity basis within the Group.		
Consisting of:		
Aggregate net deferred tax assets	181 171	218 590
Aggregate net deferred tax liabilities	(85 655)	(104 077)
Net position	95 516	114 513

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting period.

	As at 28 February 2019	Income statement movements	Other compre- hensive movements	As at 29 February 2020
<b>GROUP</b>				
<b>Deferred tax assets</b>				
Deferred tax raised on provisions	63 938	(37 465)	—	26 473
Operating lease timing adjustments	4 809	(26)	—	4 783
Computed losses	124 905	(28 950)	—	95 955
Income received in advance	15 653	1 396	—	17 049
Right-of-use liability	—	18 509	—	18 509
Intangible asset – other	—	38 839	—	38 839
Other	—	114	—	114
	209 305	(7 583)	—	201 722
<b>Deferred tax liability</b>				
Prepayments	(1 413)	(2 559)	—	(3 972)
Intangible asset – Software	(7 019)	(24 603)	—	(31 622)
Section 24C future expense deduction	(7 839)	1 244	—	(6 595)
Deferred tax on fair value adjustment of foreign loan	(5 090)	—	(2 560)	(7 650)
Deferred tax on accrued revenue	(49 145)	(4 937)	—	(54 082)
Other	(129)	129	—	—
Deferred tax on interest	(24 157)	21 872	—	(2 285)
	(94 792)	(8 854)	(2 560)	(106 206)
Net	114 513	(16 437)	(2 560)	95 516



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 9. Deferred taxation continued

#### Accounting policy continued

	2020 R'000	2019 R'000
<b>Reconciliation of estimated tax losses available in the Group:</b>		
Estimated losses at the beginning of the year	758 608	775 257
Increases in tax losses for the year	326 174	139 366
Tax losses utilised during the year	(60 159)	(156 015)
Estimated losses at the end of the year	1 024 623	758 608
<b>Which consists of:</b>		
Losses recognised	342 695	446 090
Losses not recognised	681 928	312 518
	1 024 623	758 608

#### Key estimates and judgements

In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available evidence, including projected future taxable income and results of recent operations.

In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and incorporate assumptions about the amount of future operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require the use of significant judgement and are consistent with the plans and estimates the Group is using to manage the underlying businesses. The assumptions take into account historical performance of the Group as well as future expected growth.

The Group is going through a strategic transformation that is aimed at:

- Building a strong business that is focused on leveraging core business;
- Ensuring that the business is lean and agile;
- Strengthening the brand; and
- Embedding a performance culture built on sound governance principles.

While the Group's transformation journey continues, significant progress has been made in the pursuit of the abovementioned strategic objectives. In projecting the future taxable income used for determining the recognition of deferred tax assets, management considered the impact of various optimisation programmes that are under way as well as the impact of COVID-19 on the overall South African economy. Management's budgets used to recognise deferred tax assets (pre-COVID-19 and lockdown) were reviewed to assess the effect of COVID-19 on future profits, under various scenarios. While the economic fallout resulting from the COVID-19 pandemic is likely to extend over the duration of realisation of the deferred tax asset, the Group remains confident of its ability to generate future taxable income and thus judgement is applied with regard to the timing of the utilisation of the deferred tax assets. The losses can be carried forward indefinitely and have no expiry date. As a result, the Group has recognised R342 million (2019: 446 million). The unrecognised tax losses amount to R682 million (2019: R312 million) at the end of the financial year.

### 10. Taxation

#### Accounting policy

Our income tax expense, deferred tax assets and liabilities and unrecognised tax benefits reflect management's best estimate of current and future taxes to be paid. We are subject to income taxes in the South Africa and numerous foreign jurisdictions. Significant judgements and estimates are required in the determination of the consolidated income tax expense. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

**10. Taxation** continued

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

	<b>2020 R'000</b>	2019 R'000
<b>CONTINUED OPERATIONS</b>		
<b>Current tax</b>		
– Current year	<b>78 591</b>	69 892
– Prior year under (over) provision	<b>(11 125)</b>	—
<b>Deferred tax</b>		
– Current year	<b>15 904</b>	(34 314)
– Prior year (over) underprovision	<b>531</b>	—
<b>Foreign tax</b>		
– Foreign withholding tax	<b>325</b>	—
	<b>84 226</b>	35 578
<b>Income tax recognised in the other comprehensive income</b>		
Deferred taxation		
– Exchange differences of net investment of foreign operations	<b>2 560</b>	11 588

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 10. Taxation continued

#### Accounting policy continued

Taxation reconciliation	2020 R'000	2019 R'000
<b>Profit/(loss) before tax</b>	<b>(524 305)</b>	289 092
South African standard tax rate (%)	28	28
Normal tax at standard rate	<b>(146 805)</b>	80 946
<b>Adjustment for the tax effect at the standard rate of the following items:</b>		
Exempt income		
– Incentive income	<b>(16 213)</b>	(28 595)
<b>Non-deductible items charged against income:</b>		
– Non-deductible expenses	<b>6 691</b>	2 714
– Impairment of intangible assets, goodwill and loans	<b>154 576</b>	1 910
– Share-based payments – permanent	<b>1 937</b>	4 188
Non-taxable income	<b>176</b>	—
Fair value adjustments	<b>(664)</b>	—
<b>Special allowances claimed:</b>		
– Learnerships	<b>(10 099)</b>	(14 992)
– Other special allowances	—	(1 286)
Current year tax losses not recognised	<b>58 481</b>	33 993
Prior year unrecognised tax losses utilised in current year	<b>(16 844)</b>	(4 728)
Prior year losses recognised	<b>(6 429)</b>	(47 778)
Prior year losses derecognised	<b>66 188</b>	8 423
Prior year overprovision	<b>13</b>	—
Rate change adjustment	<b>195</b>	—
Foreign currency rate differential	—	(1 965)
Other	<b>3 292</b>	(304)
Prior year under provision of current tax	<b>(10 269)</b>	282
Deferred tax on interest		
<b>Actual tax charge for the year</b>	<b>84 226</b>	32 808
<b>DISCONTINUED OPERATIONS</b>		
<b>Current tax</b>		
– Current year	<b>1 660</b>	2 770
<b>Deferred tax</b>		
<b>Total Group</b>	<b>85 886</b>	35 578

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 Group considered whether it has any uncertain tax positions, particularly those relating to deductibility of related party interest. The Group'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 R21 871 978 from deferred tax to current tax in the consolidated financial statements of the Group.

**11. Taxation paid**

	2020 R'000	2019 R'000
Net amount prepaid at the beginning of the year	27 689	(19 105)
Amounts charged to statement of comprehensive income	(67 791)	(69 892)
Tax related to discontinued operations	(1 660)	(2 769)
Interest due from SARS	4 880	—
Foreign currency	696	1 758
Net amount prepaid at the end of the year	16 141	27 689
<b>Net cash payment</b>	<b>(20 045)</b>	<b>(62 319)</b>

**12. Trade receivables**

The accounting policy applicable to trade receivables is disclosed in note 2.

	2020 R'000	2019 R'000
Trade receivables	1 924 851	2 086 490
Allowance for credit losses	2 011 366	2 181 423
	(86 515)	(94 933)
The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:	1 924 851	2 086 490
South Africa	1 432 680	1 512 942
Australia	492 171	573 548

No interest is charged on trade receivables.

Trade receivables are provided as security for all banking facilities available to the Group as disclosed in note 17.

	2020 R'000	2019 R'000
The ageing of trade receivables at the reporting date was:	2 011 366	2 181 423
Current	1 346 071	1 574 944
0 – 30 days from invoice date	338 494	380 749
31 – 60 days from invoice date	128 543	99 743
61 – 90 days from invoice date	64 644	43 081
91 – 365 days from invoice date	133 614	82 906
The Group's credit terms to clients range between 30 to 90 days, average 54 days (2019: 51 days). Trade receivables are non-interest bearing.		
Movement in the allowance for credit losses during the year under review was as follows:		
Closing balance	86 515	94 933
Balance at the beginning of the year	94 933	109 060
Amounts written off	(15 738)	(25 822)
Amounts provided for during the year	7 320	11 695

Before accepting any new customer, the South African operations use an external credit bureau to assess the potential customer's credit quality and defines credit limit by customer. The carrying value approximates the fair value.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

No interest is charged on trade receivables.

Trade receivables are provided as security for all banking facilities available to the Group as disclosed in note 17.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 12. Trade receivables continued

#### Exposure to credit risk

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base. The Group's expected credit loss rate is 4.30% (FY2019: 4.35%).

	2020		2019	
	R'000	ECL	R'000	ECL
The ageing of the expected credit loss at the reporting date was:				
Current	8 114	0.6%	12 123	0.8%
0 – 30 days from invoice date	5 788	1.7%	6 333	1.7%
31 – 60 days from invoice date	5 922	4.6%	3 287	3.3%
61 – 90 days from invoice date	6 035	9.3%	3 352	7.8%
91 – 365 days from invoice date	34 319	50%	22 613	63.4%
Specifically identified	26 337	**	47 225	**
Total provision for bad debts	86 515	4.3%	94 933	4.35%

\*\* Fully provided for based on specific identification criteria: customer's financial difficulty, inability to pay and when it is perceived that there is no realistic prospect of recovery.

#### Key estimates and assumptions

The Group applies the IFRS 9 simplified approach in measuring expected credit losses which uses a lifetime expected loss allowance (ECL) for all trade and other receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of time and the corresponding historical credit losses experienced within this period.

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The measurement of the expected credit losses also reflects the recovery expected from any credit risk insurance relating to the asset. The insured portion of the South African trade receivables are not impaired and insured at 85% (FY2019: 85%) of their value against default. The value insured is R923 million (FY2019: R1 028 million).

Historical estimated losses are calculated as the average losses for the past year. The estimated loss value is adjusted to be forward-looking by taking into account the Group's improved credit control measures. The forward-looking adjusted loss rate is applied to each receivables terms' bucket based on the unpaid balance by the total estimated loss rate. The expected loss rate (allowance for credit losses) is applied to the outstanding buckets to derive at the amount for the doubtful debt.

When measuring ECLs the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. The following steps and considerations were taken by management as part of the forward-looking assessment to see if the ECL was further affected by the impact of COVID-19:

- The expected loss rate (allowance for credit losses) is applied to the outstanding buckets to derive at the amount provided for doubtful debt.
- The debtors book was assessed by analysing the industries clients operate in as well as reviewing various media platforms to ascertain whether any of the Group's clients or their industries were at risk of being impacted by the economy or COVID-19 at the reporting date. The Group also considered any specific communications from clients that would cause concern around their ability to meet their short-term obligations as at the reporting date. No such communications were received.
- The data and research also showed that none of the Group's clients, especially key clients, had formally requested for any extension on current terms, none were in business rescue.
- Management also considered the type of service Adcorp provides to its clients. The labour Adcorp supplies to its clients can be classified as essential as it allows clients to generate income. This is also part of the reason Adcorp has minimal write offs historically. The supply of labour to key sectors in the economy is critical for clients of the Group to generate revenue and therefore our clients will honour their debt in order to generate revenue.

**13. Other receivables**

	<b>2020 R'000</b>	2019 R'000
Other receivables	<b>91 849</b>	103 712
Deposits	<b>3 884</b>	3 935
Prepayments and sundry billings	<b>32 388</b>	27 714
Sundry loans	<b>—</b>	216
Other*	<b>55 577</b>	71 847

\* Includes SETA government grants and other incentives.

The Group 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 consolidated annual financial statements continued

## for the year ended 29 February 2020

### 14. Cash and cash equivalents

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 17.

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.

Cash and cash equivalents included in the cash flow statement comprise the following:

	2020 R'000	2019 R'000
Cash resources	319 154	366 857
Bank overdrafts	(182)	(227)
	318 972	366 630

Cash resources include restricted cash in Angola related to Capital Outsourcing Group Proprietary Limited. Refer to note 8 for disclosure. Cash and cash equivalents included in Discounted operations amounts to R3 921 – refer to note 3. Total cash and cash equivalent as per Consolidated statement of cash flows amounts to R322 893.

Bank overdrafts are considered as part of cash and cash equivalents.

	2020 R'000	2019 R'000
<b>Group facilities</b>		
The Group had the following intra-day facility as at 28 February 2019. The facility is Non-interest-bearing.		
First National Bank*	100 000	100 000
<b>Total facilities</b>	100 000	100 000
These facilities are repayable on demand and 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 18.		
<b>Total facilities available</b>	1 505 655	1 557 657
South Africa	1 150 000	1 150 000
Australia	355 655	407 657
<b>Total facilities utilised</b>	1 001 684	885 302
South Africa	770 000	650 000
Australia	231 684	235 302
<b>Available facilities</b>	503 971	672 355
South Africa		
Revolving credit facility	230 000	350 000
Accordion facility	150 000	150 000
Australia	123 971	172 355

Disclosures on utilised cash facilities are provided for in note 17.

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 17.

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.

## 15. Share capital and share premium

### 15.1 Share capital and share premium

	2020 R'000	2019 R'000
<b>Share capital and share premium</b>		
<b>Authorised</b>		
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
	5 000	5 000
<b>Issued</b>		
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 0 cents each (2019: 16 822 849)	—	—
	2 749	2 749
Number of shares ('000)	106 082	108 637
Opening balance	108 637	109 955
Treasury shares	(2 555)	(1 318)
<b>Share premium</b>	1 738 109	1 738 109
Closing balance*	1 738 109	1 738 109
<b>Total share capital and share premium</b>	<b>1 740 858</b>	1 740 858

\* No movement in share premium in current and prior year.

### 15.2 Treasury shares

#### Accounting policy

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

	2020 R'000	2019 R'000
	(68 083)	(38 233)
Adcorp Fulfilment Services Proprietary Limited – 556 607 shares (2019: 556 607)	(22 834)	(22 834)
Torque IT Proprietary Limited – 1 998 015 shares (2019: 761 556)	(45 081)	(15 231)
Adcorp Employee Benefit Trust 2 consolidated – 6 729 140 "B" shares (2019: 6 729 140)	(168)	(168)

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 16. Reserves

#### 16.1 Foreign currency translation reserve

	2020 R'000	2019 R'000
Foreign currency translation reserve	(18 441)	(15 614)
Balance at 1 March	(15 614)	(26 388)
Arising on translation of foreign operations	(2 827)	10 774

Exchange differences relating to the translation from the functional currencies of the Group's foreign subsidiaries into rand amounts are brought to account by entries made directly to the foreign currency translation reserve.

#### 16.2 Share-based schemes

##### Accounting policy

Share-based payment schemes are all settled by providing shares of the Group to the recipients. The Group 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 scheme) is provided below:

	2020 R'000	2019 R'000
<b>Share-based payment reserve</b>		
<b>Opening balance</b>	<b>161 774</b>	137 310
Senior management long-term incentive scheme	18 369	1 111
Adcorp employee benefit trust and B-BBEE shareholder's trust	143 405	136 199
<b>Expense charge arising from equity-settled share-based schemes</b>	<b>5 020</b>	24 464
Senior management long-term incentive scheme	(2 186)	17 258
Adcorp employee benefit trust and B-BBEE shareholder's trust	7 206	7 206
<b>Closing balance</b>	<b>166 794</b>	161 774
Senior management long-term incentive scheme	16 183	18 369
Adcorp employee benefit trust and B-BBEE shareholder's trust	150 611	143 405

The expense recognised for share-based payment transactions during the year is shown in the following table:

	2020 R'000	2019 R'000
<b>Senior management long-term incentive scheme</b>	<b>(2 186)</b>	17 258
Expense arising from equity-settled share-based payment transactions	(2 186)	17 258
<b>Adcorp Employee Benefit Trust and B-BBEE Shareholder's interest</b>	<b>7 206</b>	7 206
Expense arising from equity-settled share-based payment transactions	7 206	7 206
<b>Total expense arising from equity-settled share-based payment transactions</b>	<b>5 020</b>	24 464

#### Key estimates 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 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 models take 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 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.

**16. Reserves** continued**16.2 Share-based schemes** continued**Senior management long-term incentive scheme**

The Group 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 the Group.
- 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).

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

	Number of share options 2020	Weighted average exercise price 2020	Number of share options 2019	Weighted average exercise price 2019
<b>Senior management long-term incentive scheme</b>				
Outstanding balance at the beginning of the year	5 479 735	14.47	4 238 599	16.0
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
Exercisable at the end of the year	—	—	—	—

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

	Number	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	RS	17.99
Issued in FY2018	209 650	2018/02/02	2021/02/02	2024/02/02	PS	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 discounted at a risk-free rate

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

	2020	2019
Weighted average share price (R)	R17.99 – R24.94	R18.10 – R20.25
Expected volatility (%)	34.06% – 42.26%	36.1% – 42.4%
Expected life (years)	3 – 6 years	3 – 6 years
Risk-free rate (%)	6.95% – 7.76%	7.76%
Expected dividend yield (%)	0% – 2.44%	1.65%

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 16. Reserves continued

#### 16.2 Share-based schemes continued

##### Adcorp Employee Benefit Trust and B-BBEE Shareholder's interest

In terms of the BEE transaction in 2013 (2013 B-BBEE transaction), Adcorp has created and issued a total of 16 822 849 "B" ordinary shares (2015: 16 822 849) to its empowerment shareholders at a par value of 2.5 cents per share:

- 6 729 140 (2019: 6 729 140) are owned by a trust called the Adcorp Employee Benefit Trust 2 (AEBT2).
- 5 887 997 (2019: 5 887 997) participation has been allocated to women's empowerment group WIPHOLD; and,
- 4 205 712 (2019: 4 205 712) participation has been allocated to an empowerment business, Simeka Group. At the end of 10 years, the "B" ordinary shares convert into Adcorp ordinary shares based on the value of the notional debt that is paid down at the time.

	2020 R'000	2019 R'000
<b>Issued</b>		
"B" class shares in Adcorp Holdings		
16 822 849 "B" ordinary shares of 2.5 cents per share (2019: 16 822 849)	421	421
"A" class shares in subsidiaries		
400 "A" ordinary shares of no par value in Quest Staffing Solutions Proprietary Limited (2019: 400)	25	25
450 "A" ordinary shares of no par value in Fortress Administration Proprietary Limited (2019: 450)	230	230
	<b>676</b>	<b>676</b>

In respect of the 2013 B-BBEE deal, the fair value of the cancelled options and new options issued on the 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 option 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:

	2020 R'000	2019 R'000
Using the modification cost principles under IFRS 2, the total modified cost of the option is R145.6 million.		
The total value to be amortised over the 10-year period is the aggregate of (a) 40% of the modified option cost plus (b) the unamortised option value relating to the 2007 B-BBEE deal, as above.		
Details of the amounts expensed over the 10-year period are as follows:		
One year	7 206	7 206
Year two to five	28 824	28 824
More than five years	—	—

**16. Reserves** continued**16.2 Share-based schemes** continued**Adcorp Employee Benefit Trust and B-BBEE Shareholder's 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:

	Number of share options 2020	Weighted average exercise price R 2020	Number of share options 2019	Weighted average exercise price 2019
<b>Adcorp Employee Benefit Fund Trust 2</b>				
"B" ordinary shares	6 729 140	42.17	6 729 140	42.17
Outstanding balance at the beginning of the year	—	—	—	—
Issued during the year	—	—	—	—
Outstanding at the end 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

**17. Interest-bearing liabilities****17.1 Long-term portion**

	Interest rate	Maturity	2020 R'000	2019 R'000
Long-term loans — non-current portion		Six equal instalments on the last of each of the five months prior to 30 November 2020	—	690 466
Amortising revolving loan	JIBAR +340	Equal semi-annual instalments due August 2020 and February 2021	—	200 000
Amortising term loan	JIBAR +340		—	450 000
Amortising revolving loan	2.9% – 3.15%		—	40 466

**17.2 Short-term portion**

	Interest rate	Maturity	2020 R'000	2019 R'000
Long-term loans – current portion		Six equal instalments on the last of each of the five months prior to 30 November 2020	1 001 684	194 836
Amortising term loan	JIBAR +340	Equal semi-annual instalments due August 2020 and February 2021	570 000	—
Amortising revolving loan	JIBAR +340		200 000	—
Amortising revolving loan	2.9% – 3.15%		231 684	194 836



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 17. Interest-bearing liabilities continued

#### 17.2 Short-term portion continued

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 Group 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 Group 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 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 37 Going Concern for additional information regarding the terms and the nature of the agreement concluded after the reporting date.

#### 17.3 Available facilities utilisation

	2020 R'000	2019 R'000
Loans – opening balance	885 302	1 206 883
Repayments	(1 122 930)	(1 366 966)
Proceeds from facilities	1 235 298	1 033 216
Foreign currency difference	4 014	12 169
Closing balance	1 001 684	885 302

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 trade receivables are used as security to secure funding relating to the revolving loan facilities.

As security for the South Africa loan facility granted to the Group, 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
- Tiger Tail Digital 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
- Allalecutexpert Proprietary Limited
- Innstaff Proprietary Limited

## 18. Trade and other payables including IFRS 15 contract liabilities

Trade and other payables do not carry interest and are stated at their nominal value.

The average credit period on trade and other payables is 30 days. All amounts will be settled within 12 months and are therefore considered to be short term in nature.

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The carrying value approximates the fair value.

	2020 R'000	2019 R'000
	<b>1 010 646</b>	1 111 233
Trade creditors	<b>149 664</b>	205 863
VAT	<b>208 055</b>	220 548
Operating expense accruals	<b>200 352</b>	213 715
Payroll accruals	<b>336 677</b>	338 279
IFRS 15 contract liabilities	<b>60 889</b>	55 899
Other creditors	<b>55 009</b>	66 870
Obligation under finance leases	<b>—</b>	10 059

### COVID-19 considerations

The Group's detailed COVID-19 response included the renegotiation of payment terms and deferral of a number of payments to suppliers – in order to manage cash flows within the Group in order to meet its obligations to staff and lender covenant requirements. The deferral arrangements entered into after the reporting date do not constitute a waiver as the obligations to the suppliers remain fully payable within a period of one year following the deferral of payments. Thus, the trade and other payables balances presented at the end of the reporting date are a fair reflection of the short-term obligations of the Group towards its suppliers and other similar partners.

### 18.1 Customer contract liabilities

Amounts recognised in the income received in advance balance relate to monies received in advance from customers. The Group has recognised the following current liabilities related to contracts with customers.

		2020 R'000	2019 R'000
	Performance obligation (timing)		
Customer liabilities – Training	Revenue is recognised over time as the training is provided.	<b>46 253</b>	35 180
Customer liabilities – Permanent placements	Revenue is recognised when at the point in time when placed candidates begin employment.	<b>174</b>	625
Customer liabilities – Outsource-based solutions	Revenue is recognised at the point in time that the solution has been delivered to the customer.	<b>436</b>	550
Customer liabilities – Temporary placements	Revenue is recognised over time as the services are rendered.	<b>14 026</b>	19 544
Total current customer liabilities		<b>60 889</b>	55 899

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 18. Trade and other payables including IFRS 15 contract liabilities continued

#### 18.1 Customer contract liabilities continued

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities where performance obligations that were satisfied in the current year.

	2020 R'000	2019 R'000
Opening balance	55 899	38 926
Income in advance recognised as liability – performance obligations not met	171 379	336 718
- Training	89 834	100 124
- Permanent placements	199	845
- Outsourcing	1 525	10 419
- Temporary placements	79 821	225 330
Revenue recognised in period	(166 389)	(319 745)
- Training	(78 763)	(103 373)
- Permanent placements	(650)	(716)
- Outsourcing	(1 639)	(9 870)
- Temporary placements	(85 337)	(205 786)
Closing balance	60 899	55 899

#### Training

Revenue from training is recognised as the contracted service is rendered to a client, which is over a period of time. Consideration received from clients who pay for training services in full, at the beginning of the service contract, is recognised as a contract liability. Revenue from the contract liability is recognised over the period of the training contract.

#### Permanent placements

Revenue from permanent placements is recognised at a point in time when a qualified candidate has been placed and begins permanent employment with a client. Consideration received is recognised net of a “contingency allocation” for permanent placement candidates who may not remain with a client through specified contingency period. This contingency is recognised as a contract liability. Revenue from the contract liability is recognised at the point when the contingency period has lapsed.

#### Outsourcing

Revenue from outsourcing solutions is recognised at the point in time that the solution has been delivered to the customer. Consideration received from clients who pay for outsourcing solutions in advance, before the solution has been delivered, is recognised as a contract liability. Revenue from the contract liability is recognised at the point when the solution has been delivered.

#### Temporary placements

Revenue from temporary placements is recognised as the contracted service is rendered to a client, which is over a period of time. Consideration received from clients who pay for temporary placement services in full, at the beginning of the service contract, is recognised as a contract liability. Revenue from the contract liability is recognised over the period of the temporary placement contract.

Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period.

	2020 R'000	2020 R'000
- Training	78 763	103 372
- Permanent placements	650	716
- Outsourcing	1 639	9 870
- Temporary placements	85 337	205 789
	166 389	319 747

## 19. Provisions

### Accounting policy

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### Provision for leave pay

In making its judgement, the provision for leave pay was measured at the Group's best estimate of the expenditure required to settle the obligation at the balance sheet date in accordance with the Basic Conditions of Employment Act. The provision includes both temporary and permanent employees.

### Bonuses

Bonus provision includes both temporary and permanent staff. The Group rewards the meeting of strategic financial and non-financial objectives through bonuses to permanent employees. The provision is utilised when the bonus is approved and paid out in May of the following financial year. Temporary staff bonuses are raised based on contractual obligations with our assignee and candidate base.

### Other

Other provisions represent the directors' best estimate of future economic benefits that may be required to cover claims on services rendered by the Group. The provisions have been determined based on assessments and estimates by management. Actual results could differ from estimates and there is no certainty regarding timing of these cash flows.

	As at 28 February 2019 R'000	Provisions raised 2020 R'000	Provisions utilised 2020 R'000	Foreign exchange movement 2020 R'000	Transfer liabilities held-for-sale 2020 R'000	As at 29 February 2020 R'000
Leave pay	131 309	42 090	(67 246)	267	—	106 420
Bonuses	81 148	48 268	(91 962)	243	—	37 697
Other	74 206	4 351	(60 313)	68	—	18 312
Total	286 663	94 709	(219 521)	578	—	162 429
	2018 R'000	2019 R'000	2019 R'000	2019 R'000	2019 R'000	2019 R'000
Leave pay	143 756	131 210	(145 554)	1 897	—	131 309
Bonuses	92 352	61 951	(75 068)	1 913	—	81 148
Other	51 094	32 357	(9 283)	38	—	74 206
Total	287 202	225 518	(229 905)	3 848	—	286 663

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 20. Revenue

#### Accounting policy

The Group is in the business of providing services to clients. Permanent placement and outsourced-based solutions services are provided at a point in time. Temporary placement and training services are provided over a period of time. Revenue is therefore recognised at the point of delivery for permanent placement and outsourced-based solutions and over a period of time for temporary placement and training services. In certain cases the Group makes use of output-based methods to determine when the revenue for performance obligations is recognised over time.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when the performance obligations are met.

#### Permanent placement

Permanent placement involves placing candidates with prospective employers. Once candidates are placed, the Group has no further obligations to the customer. Revenue is recognised when placed candidates begin employment.

#### Temporary placement

Adcorp provides temporary employment services to customers – the services are described as a “solution”. The services contracted include procurement, screening, payroll administration, maintenance of records, management reporting, labour-related matters, etc. Additional services may be required on an ad hoc basis, the terms of which are due to be agreed upon between the parties.

Revenue is recognised as the services are rendered.

#### Training

The Group provides disability, technical, higher and technological training as well as other ancillary services. There are no contracts with variable consideration components as well as multiple performance obligations.

Revenue is recognised as the training is provided.

#### Outsourced-based solutions

This is focused on managing a wide range of business processes through qualified professionals who use automation and optimisation tools to help improve efficiency, reduce operational costs and increase productivity, while capitalising on process automation technologies. This could also include providing clients with contract management and vendor disbursements for client suppliers.

Revenue is measured once the solution has been delivered to the customer.

#### Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e. transfers the related services to the customer). Refer to note 24 Contract liabilities for details of the liabilities recognised by the Group arising from contracts from customers.

Performance obligation	Description	Timing	2020 R'000	2019 R'000
Permanent placement	Permanent placement involve placing candidates in full-time employment with prospective employers. Once candidates are placed, the Group has no further obligations to the customer.	Revenue is recognised when placed candidates begin employment.	136 507	176 097
Temporary placement	Adcorp provides temporary employment services to customers – the services are described as a “solution”. The services contracted include procurement, screening, payroll administration, maintenance of records, management reporting, labour related matters etc. Additional services may be required on an ad hoc basis, the terms of which are to be agreed upon between the parties.	Revenue is recognised as the services are rendered	10 611 482	13 263 491
Training	The Group provides disability, technical, higher and technological training as well as other ancillary services. There are no contracts with variable consideration components as well as multiple performance obligations.	Revenue is recognised as the training is provided.	310 466	300 671
Outsourced based – solutions	This is focused on managing a wide range of business processes through qualified professionals who use automation and optimisation tools to help improve efficiency, reduce operational costs and increase productivity, while capitalising on process automation technologies. This could also include providing clients with contract management and vendor disbursements for client suppliers.	Revenue is recognised once the solution has been delivered to the customer.	1 999 892	786 250
Total			13 058 347	14 526 509

**20. Revenue** continued**Contract liabilities** continued

The Group does not enter into arrangements with deferred payment terms that exceed 12 months, therefore there is no significant financing component accounted for.

The Group makes use of the practical expedient option in paragraph 121 in IFRS 15 as the right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date. The service contracts bill a fixed amount for each hour of service provided.

**Key estimates and judgements**

The Group is a principal if it controls the specified service before the service is rendered to a customer. The Group is an agent if the entity's performance obligation is to arrange for the provision of the service by another party. Changes to certain contractual terms during the current financial year have resulted in a client whose revenues were historically recognised on the agent concept transition to recognition based on principal. The following factors were considered in determining whether the Group is a principal or an agent:

- Primary responsibility for providing the services to the customer or for fulfilling the order,
- Latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services which they will bill for, and
- Who bears the customer's credit risk for the amount receivable.

**21. Other income**

	2020 R'000	2019 R'000
<b>Other income</b>	<b>28 302</b>	45 461

Other income includes training levies recovered and bureau income

**22. Operating profit**

	2020 R'000	2019 R'000
Operating profit is determined after allowing for the following items:		
Auditors' remuneration	(18 984)	(18 260)
Retirement benefits	(68 654)	(67 494)
Leasing and rentals	(25 877)	(93 348)
Staff costs	823 278	(1 137 748)
Realised foreign exchange gains/(losses)	17 416	1 514

**23. Interest income**

	2020 R'000	2019 R'000
Interest income	22 592	21 031
Bank deposits	18 992	19 997
Interest received on other financial assets and other	3 235	1 034
Other	365	—

**24. Interest expense**

	2020 R'000	2019 R'000
Interest expenses	(128 091)	(104 728)
Bank overdrafts	(12 705)	(15 816)
Interest-bearing borrowings	(77 451)	(88 764)
Interest on right-of-use liabilities*	(37 259)	—
Other	(676)	(148)

\* Refer to note 6 on leases



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 25. Earnings per share

The calculation of earnings per share on continuing operations attributable to the ordinary equity holders of the parent is based on losses of R608 845 053 (2019: earnings R255 811 000), profit from discontinued operations of R4 780 767 (2019: R5 861 000), and ordinary shares of 107 732 131 (2019: 109 043 442), being the weighted average number of shares relative to the above earnings.

	2020 R'000	Restated# 2019 R'000
<b>Continuing operations</b>		
Basic (loss)/earnings per share – cents	(565.1)	234.6
Diluted (loss)/earnings per share	(565.1)	228.9
<b>Discontinuing operations</b>		
Basic earnings per share – cents	4.4	5.4
Diluted earnings per share	4.4	5.2
<b>Total basic loss per share – cents</b>		
Basic (loss)/earnings per share – cents	(560.7)	240.0
Diluted (loss)/earnings per share	(560.7)	234.1
111 754 773 (2018: 108 946 470) weighted diluted number of shares are determined as follows:		
<b>Reconciliation of diluted number of shares</b>		
Ordinary shares	107 732 131	109 043 442
Adcorp employee share schemes – dilution*	1 975 659	2 711 331
Adcorp employee share schemes – anti dilutive shares excluded***	(1 975 659)	—
<b>Diluted number of shares</b>	<b>107 732 131</b>	<b>111 754 773</b>
<b>Reconciliation of headline (loss)/earnings from continuing operations**</b>		
(Loss)/profit for the year	(608 845)	255 811
Profit on sale of property and equipment	(209)	(803)
Taxation recovered on the sale of property and equipment	58	—
Impairment of goodwill, bonds and right-of-use assets	596 784	6 821
Profits from the sale of businesses	715	(574)
Headline (loss)/earnings	(11 497)	261 255
Headline (loss)/earnings per share – cents	(10.7)	239.6
Diluted headline earnings/(loss) earnings per share – cents	(10.7)	233.8
<b>Reconciliation of headline earnings from discontinued operations**</b>		
Profit for the year	4 781	5 861
Headline earnings per share – cents	4 781	5 861
Headline earnings per share – cents	4.4	5.4
Diluted headline earnings per share – cents	4.4	5.2
<b>Reconciliation of headline (loss)/earnings from total operations</b>		
(Loss)/profit for the year	(604 064)	261 672
Impairment	596 784	6 821
Profit on sale of property and equipment	(209)	(803)
Taxation recovered on the sale of property and equipment	58	—
Profits from the sale of businesses	715	(574)
Headline (loss)/earnings	(6 716)	267 116
Headline (loss)/earnings per share – cents	(6.2)	245.0
Diluted headline (loss)/earnings per share – cents	(6.2)	239.0

\* The dilution of shares results from the potential exercise of options in the employee share scheme.

\*\* Headline (loss) earnings per share is based on earnings adjusted for (profit) loss on impairment of goodwill, bonds and right-of-use assets.

# Earnings per share for FY2019 have been restated due to the re-presentation of operating results due to the classification of DARE Holdings Proprietary Limited – Australia as a discontinued operation.

**26. Directors' and prescribed officers' emoluments**

<b>Executive directors 2020</b>	<b>Salary R'000</b>	<b>Bonus R'000</b>	<b>Employee benefits R'000</b>	<b>Sub-total R'000</b>	<b>Realised gains on share options R'000</b>	<b>Separation costs R'000</b>	<b>Notice and leave pay R'000</b>	<b>Total R'000</b>
I Dutiro (resigned 08 October 2019)	3 404	—	680	4 084	—	11 661	2 237	17 982
CJ Kujenga (resigned 31 May 2020)	3 695	—	381	4 076	—	1 241	—	5 317
	7 099	—	1 061	8 160	—	12 902	2 237	23 299

<b>Executive directors 2019</b>	<b>Salary R'000</b>	<b>Bonus R'000</b>	<b>Employee benefits R'000</b>	<b>Sub-total R'000</b>	<b>Realised gains on share options R'000</b>	<b>Total R'000</b>
I Dutiro	4 846	5 575	957	11 378	—	11 378
CJ Kujenga	3 209	2 101	351	5 661	—	5 661
	8 055	7 676	1 308	17 039	—	17 039

<b>Prescribed officers 2020</b>	<b>Salary R'000</b>	<b>Bonus R'000</b>	<b>Employee benefits R'000</b>	<b>Sub-total R'000</b>	<b>Realised gains on share options R'000</b>	<b>Total R'000</b>
R de Grooth	2 201	—	211	2 412	—	2 412
K Vittee	1 708	—	193	1 901	—	1 901
U Fear (resigned 31 May 2020)	1 967	—	278	2 245	—	2 245
T Sadik (resigned 30 April 2020)	981	—	—	981	—	981
T Fowler	2 199	1 187	193	3 579	—	3 579
	9 056	1 187	875	11 119	—	11 119

<b>Prescribed officers 2019</b>	<b>Salary R'000</b>	<b>Bonus R'000</b>	<b>Employee benefits R'000</b>	<b>Subtotal R'000</b>	<b>Realised gains on share options R'000</b>	<b>Total R'000</b>
M Jurgens*	5 604	—	202	5 806	105	5 911
R de Grooth	1 838	1 233	550	3 621	35	3 656
K Vittee	2 364	998	350	3 712	105	3 817
U Fear**	165	500	18	683	—	683
H Weyers	1 061	210	264	1 535	—	1 535
	11 032	2 941	1 384	15 357	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.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 27. Directors' and prescribed officers' participation in long-term incentive scheme

	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 as at 29 February 2020	Vesting date
<b>Executive directors</b>						
I Dutiro	316 698	—	—	(316 698)	— <sup>#</sup>	20/06/2021
	930 533	—	—	(930 533)	— <sup>*</sup>	02/02/2021
	500 000	—	—	(500 000)	— <sup>**</sup>	02/02/2021
	500 000	—	—	(500 000)	— <sup>**</sup>	02/02/2022
	—	272 080	—	(272 080)	— <sup>#</sup>	01/03/2022
	500 000	—	—	(500 000)	— <sup>#</sup>	02/03/2023
CJ Kujenga	116 568	—	—	—	116 568 <sup>*</sup>	20/06/2021
	241 000	—	—	—	241 000 <sup>#</sup>	02/02/2021
	—	125 182	—	—	125 182 <sup>#</sup>	01/03/2022
<b>Prescribed officers</b>						
R de Grooth	35 000	—	—	—	35 000 <sup>#</sup>	01/03/2020
	68 671	—	—	—	68 671 <sup>#</sup>	20/06/2021
	—	76 135	—	—	76 135 <sup>#</sup>	01/03/2022
K Vittee	139 650	—	—	—	139 650 <sup>#</sup>	01/03/2020
	74 132	—	—	—	74 132 <sup>#</sup>	20/06/2021
	—	62 262	—	—	62 262 <sup>#</sup>	01/03/2022
H Weyers	36 478	—	—	—	36 478 <sup>#</sup>	20/06/2021
	—	20 114	—	—	20 114 <sup>#</sup>	01/03/2022
T Fowler	—	64 779	—	—	64 779 <sup>#</sup>	20/06/2021
	—	52 751	—	—	52 751 <sup>#</sup>	01/03/2022
U Fear	—	48 899	—	—	48 899 <sup>#</sup>	01/03/2022

<sup>#</sup> Performance shares.

<sup>\*</sup> Sign-on shares.

<sup>\*\*</sup> Share appreciation rights (SARs). Vesting in three equal tranches 2021; 2022; 2023. Refer to note 28 for resignations and appointments. 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.

**28. Directors' and prescribed officers' emoluments**

<b>2020</b>	<b>Directors' fees R'000</b>
<b>Non-executive directors</b>	
GT Serobe	927
P Mnganga	361
GP Dingaan	406
H Singh	607
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
S Sithole	441
MW Spicer	636
MM Nkosi (appointed 06 June 2019, previously an alternate director from 19 October 2018)	455
R van Dijk (appointed 06 June 2019)	355
C Smith (appointed 10 January 2020)	295
	<b>6 542</b>
<b>2019</b>	<b>Directors' fees R'000</b>
<b>Non-executive directors</b>	
GT Serobe	1 071
P Mnganga	203
GP Dingaan	366
H Singh	250
SN Mabaso-Koyana	640
C Maswanganyi	397
TP Moeketsi	282
ME Mthunzi	354
FS Mufamadi	400
S Sithole (appointed 4 July 2017)	425
MW Spicer	580
JA Boggenpoel (resigned 20 July 2018)	145
	<b>5 113</b>

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 29. Schedule of directors' interests – Adcorp Holdings Limited

Year ended 29 February 2020

	2020			2019		
	Direct	Indirect	Total	Direct	Indirect	Total
<b>Directors' names</b>						
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	0	25 355 569	25 355 569
MW Spicer	—	48 000	48 000	0	48 000	48 000
<b>Alternate directors</b>						
MM Nkosi (appointed 19 October 2018)	—	28 443 256	28 443 256	0	25 355 569	25 355 569
MA Jurgens (resigned September 2017)	—	—	—	54 628	—	54 628
RM Ramaite (resigned January 2019)	—	—	—	15 000	—	15 000
	6 330	87 932 388	87 938 718	87 628	76 114 707	76 202 335
<b>Less double counting for Value Capital Partners (VCP)</b>		(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.

Note: There have been no changes in directors' interest post-year-end to the date of this report.

### 30. Dividends

#### 30.1 Dividend paid

	2020 R'000	2019 R'000
Amounts paid	(105 666)	(2 234)

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

#### 30.2 Dividend declared

	2020 R'000	2019 R'000
<b>Ordinary shares</b>		
No dividends were declared for the financial year ended 29 February 2020 (FY2019: R106 million). The dividend declared for FY2019 amounted to 96.10 cents per ordinary share.	—	105 666

### 31. Related parties

The Group did not enter into any transactions with Group parties other than those with subsidiaries which were eliminated on consolidation. All transactions took place on an arm's length basis. Refer to Annexure A.

#### 31.1 Trading transactions

During the year, Group entities entered into the following transactions:

	Sale of services		Holding company management fees		Accounting and information technology fees	
	2020 R'000	2019 R'000	2020 R'000	2019 R'000	2020 R'000	2019 R'000
Subsidiaries of Adcorp Holdings Limited	252 470	230 769	163 166	223 524	134 249	130 337

#### 31.2. B-BBEE shareholders' interest

Certain directors of the Group are directors of the Group's B-BBEE partners (refer to note 17.2).

GP Dingaan who is a non-executive director, is an employee of the WIPHOLD Group, being one of the Group's B-BBEE partners.

C Maswanganyi, who is a non-executive director collectively control Simeka Group, being one of the Group's B-BBEE partners.

For key management interest disclosures, please refer to notes 27, 28, 29 and 30.

### 32. Acquisition and disposal of businesses

Entities sold 2019	Segment	Principal activity	Date of disposal	Proportion of shares acquired (%)	Proceeds on disposal R'000
FNDS3000	Financial Services	Electronic payments	1/6/2018	100%	10 250

\* There were no business acquisition and disposal transactions in the current financial year.

### 33. Financial instruments

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents disclosed in note 14, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in note 15 and the statement of changes in equity.

An Investment Committee was constituted during FY2018. This committee has considered the cost of capital and the risks associated with each class of capital. The current gearing ratio is 27% (FY2019: 55%). The committee has worked on the determination of an appropriate capital framework and target gearing for the Group. The Group historically had a target gearing ratio of 37%. Going forward, the committee believes that the appropriate leverage ratio for the nature of the business is the Debt-to-EBITDA ratio and has a target of 1.5x. This will be reviewed on an ongoing basis as the strategic transformation progresses.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in the accounting policies.



# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 33. Financial instruments continued

#### 33.1 Categories for financial instruments

	2020 R'000	2019 R'000
<b>Financial assets</b>		
Investments – fair value through profit and loss	17 620	15 247
Receivables (excluding cash resources) – amortised cost	1 924 851	2 086 490
Cash	319 152	366 857
Investment – amortised cost	4 431	2 992
<b>Financial liabilities</b>		
Amortised cost (excluding bank overdraft)	1 743 386	1 775 987
Lease liabilities	497 479	—
Bank overdraft	182	227
<b>The following table details the Group's remaining contractual maturity for its financial liabilities:</b>		
Within one year	1 796 572	1 085 521
More than one year and not later than five years	444 293	690 466

#### 33.2 Financial risk management objectives

The Group's executive and head office treasury function provides services to the business, coordinates access to domestic financial markets, and monitors and manages the financial risks relating to the operations of the Group. These risks include market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The head office treasury function reports quarterly to the Board, which monitors risks and policies implemented to mitigate risk exposures.

#### 33.3 Interest risk management

The Group is exposed to interest rate risk because it has borrowings that attract interest at floating rate.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting year. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's loss for the year after tax would increase/decrease by R10.5 million (2019: decrease/increase by R11.7 million).

#### 33.4 Financial risk management

##### Liquidity risk

Liquidity risk is the risk that the Group will not be able to repay its financial obligations as they fall due. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Borrowing facilities are reflected in note 17.

**33. Financial instruments** continued**33.4 Financial risk management** continued**Credit risk**

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 financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

	On demand R'000	Less than 3 months R'000	3 – 12 months R'000	1 – 5 years R'000	More than 5 years R'000	Total R'000
Interest bearing loans – South Africa	—	—	770 000	—	—	770 000
Interest-bearing loans – Australia	—	—	231 684	—	—	231 684
Trade and other payables	—	741 702	—	—	—	741 702
Lease liabilities	—	231	52 955	103 172	341 121	497 479
Interest	—	9 011	16 731	116 978	133 385	276 105
<b>Total</b>	<b>—</b>	<b>750 944</b>	<b>1 071 370</b>	<b>220 150</b>	<b>474 506</b>	<b>2 516 970</b>

**Foreign currency**

The Group undertakes transactions denominated in foreign currencies, consequently, exposures to exchange rate fluctuations arise.

The sensitivity analysis below represents the extent to which the company has monetary assets and liabilities other than the company's functional currency. Based on the net exposure below it is estimated that a 10% change in the Australian dollar foreign exchange rate against the functional currency will impact the fair value of the net asset value as well as the Group's profit to the extent of R25 million (2019: R24 million).

**33.5 Financial instruments**

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 financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

Financial assets/ financial liabilities	<b>2020 R'000</b>	2019 R'000	Valuation technique(s) and key inputs	Fair value hierarchy	Significant observable input(s)	Relationship of unobservable inputs to fair value
Investment	<b>17 620</b>	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

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 34. Operating lease arrangements

#### Accounting policy

The Group has the following short-term and low value lease commitments:

	2020 R'000	2019 R'000
<b>The Group as lessee</b>		
Minimum lease payments under operating property and IT-related leases recognised as an expense in the year	25 887	104 856
At the statement of financial position date, the Group has outstanding commitments under non-cancellable operating leases which fall due as follows:	26 511	142 627
Within one year	26 511	57 792
In the second to fifth years inclusive	—	82 810
After five years	—	2 025
Average lease terms (months)	Shorter than 12 months	36

### 35. Contingent liabilities and commitments

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

### 36. Events after 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.

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 Group is therefore aware that the economic effects arising from the COVID-19 outbreak are expected to negatively impact the consolidated results of the Group 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 Group.

#### Adcorp COVID-19 response plan

- 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.

**36. Events after reporting period** continued**Adcorp COVID-19 response plan** continued

- Reduction of non-essential spend. The Group 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 Group'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 Group 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.

**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 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 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.

# Notes to the consolidated annual financial statements continued

## for the year ended 29 February 2020

### 37. Going concern

In preparing the consolidated financial statements, the directors are responsible for evaluating the Group'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 Group'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 Group 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 rightsize 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.

#### Restructure activities

The Group 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.

The recruitment process for a new permanent Chief Financial Officer has commenced and should be concluded in due course. An interim appointment was finalised and communicated to the market on 16 June 2020.

**37. Going concern** continued**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.

**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**

On 29 February 2020, the total assets of the Group exceeded the total liabilities by R1,1 billion and the current ratio as at 29 February 2020 was 1:1. There are no events anticipated in the year ahead that indicate any risk to the Group'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 Group 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 36, 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 de-risk the business and strengthen the balance sheet.

The directors are satisfied that there are no material uncertainties that cast doubt on the Group or Company's ability to operate as a going concern and that the Group and 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.

## Annexure A: Details of subsidiaries and associates

### for the year ended 29 February 2020

Name of subsidiary	Nature of business/status
Adchip Managed Solutions Proprietary Limited	Dormant
Adcorp Accountability Proprietary Limited	Dormant
Adcorp Advantage Proprietary Limited	Financial services
Adcorp Africa Limited (Mauritius)	Investment holding
Adcorp Contracting Proprietary Limited	Dormant
Adcorp Flexible Staffing Solutions Proprietary Limited	Dormant
Adcorp Fulfilment Services Proprietary Limited	Holding company
Adcorp Holdings Australia	Holding company
Adcorp Holdings Singapore Pte Limited	Holding company
Adcorp Management Services Proprietary Limited	Shared services
Adcorp Staffing Solutions Proprietary Limited	Holding company
Adcorp Staffing Solutions Proprietary Limited	Holding company
Adcorp Support Services Proprietary Limited	Financial services
Adcorp Technical Training Proprietary Limited	Training
Adcorp Workforce Management Solutions Proprietary Limited	Holding company
Adcorp Workforce Management Solutions Proprietary Limited	Holding company
Adcorp Workforce Solutions Proprietary Limited	Flexible staffing
ADfusion Contract Management Services Proprietary Limited	Recruitment
All About Project Management Proprietary Limited	Project management products and services
All About Xpert Australia Proprietary Limited	Project management products and services
All About Xpert Proprietary Limited	Project management products and services
All About Xpert Technologies Proprietary Limited	Project management products and services
Anglo African Outstaffing Proprietary Limited	Flexible staffing
Capital Outsourcing Group Limited – Uganda	Flexible staffing
Capital Outsourcing Group Proprietary Limitada – Mozambique	Flexible staffing
Capital Outsourcing Group Proprietary Limited – Angola (Branch)	Flexible staffing
Capital Outsourcing Group Proprietary Limited – Australia (to be deregistered)	Flexible staffing
Capital Outsourcing Group Proprietary Limited – Malawi	Agency agreements
Capital Outsourcing Group Proprietary Limited – South Sudan (Branch)	Flexible staffing
Capital Outsourcing Group Proprietary Limited – South Africa	Flexible staffing
Capital Outsourced Solutions Proprietary Limited	Flexible staffing
Charisma Healthcare Solutions Proprietary Limited	Dormant
Comsel Eighteen Proprietary Limited t/a Kanimambo	Supplier of IT services
Dare Energy Proprietary Limited	Flexible staffing
Dare Holdings Proprietary Limited	Flexible staffing
Dare Holdings LLC (Texas, USA)	Dormant
DAV Professional Placement Group Proprietary Limited	Dormant
Envisionme Virtual Talent Management Co Proprietary Limited – 74.9% owned	Emergent business
FNDS3000 Proprietary Limited	Payroll card
Fortress Administration Solutions Proprietary Limited	Outsourcing solutions
Fortress Administration Solutions Proprietary Limited	Outsourcing solutions
InfoVu Holdings Proprietary Limited	Dormant



Share type	Authorised share capital of subsidiary/associate		Issued share capital of subsidiary/associate		Number of shares held by Adcorp	
	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000
Ordinary	1 000	1 000	100	100	100	100
Ordinary	4 000	4 000	200	200	200	200
Ordinary	1 200	1 200	100	100	100	100
Ordinary	10 000	10 000	10 000	10 000	10 000	10 000
Ordinary	4 000	4 000	1	1	1	1
Ordinary	20 000	20 000	10 000	10 000	10 000	10 000
Ordinary	20 000	20 000	9 000	9 000	9 000	9 000
Ordinary	30 000 100	30 000 100	30 000 100	30 000 100	30 000 100	30 000 100
Ordinary	1	1	1	1	1	1
Ordinary	4 000	4 000	400	400	400	400
Ordinary	4 000	4 000	100	100	100	100
Class "A" redeemable preference	225 000	225 000	—	—	—	—
Ordinary	1 000	1 000	100	100	100	100
Ordinary	1 000	1 000	100	100	100	100
Ordinary	900 000 000	900 000 000	349 716 709	349 716 709	349 716 709	349 716 709
Convertible redeemable preference	100 000 000	100 000 000	—	—	—	—
Ordinary	1 000 000 000	1 000 000 000	100 000 000	100 000 000	100 000 000	100 000 000
Ordinary	4 000	4 000	2 000	2 000	2 000	2 000
Ordinary	1 000	1 000	340	340	340	340
Ordinary	100	100	100	100	80	80
Ordinary	100 000	100 000	10 000	10 000	10 000	10 000
Ordinary	100	100	100	100	75	75
Ordinary	1 000	1 000	1 000	1 000	1 000	1 000
Ordinary	10 000	10 000	10 000	10 000	—	—
Ordinary	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
Ordinary	10 000	10 000	10 000	10 000	10 000	10 000
—	—	—	—	—	—	—
Ordinary	100 000	100 000	10 600	10 600	10 600	10 600
Ordinary	1 000	1 000	100	100	100	100
Ordinary	1 000	1 000	100	100	100	100
Ordinary	1 000	1 000	120	120	120	120
Ordinary	1	1	1	1	1	1
Ordinary	2	2	2	2	—	—
Ordinary	100	100	100	100	100	100
Ordinary	1 000	1 000	100	100	100	100
Ordinary	1 000	1 000	1 000	1 000	749	749
Ordinary	1 000	1 000	100	100	—	—
Ordinary	550	550	550	550	550	550
A' ordinary	450	450	450	450	—	—
Ordinary	1 000	1 000	1 000	1 000	1 000	1 000

## Annexure A: Details of subsidiaries and associates continued

for the year ended 29 February 2020

Name of subsidiary	Nature of business/status
InfoVu Proprietary Limited	Dormant
InnStaff Proprietary Limited	Flexible staffing
Inn-Staff Swaziland Proprietary Limited	Flexible staffing
Kelly Corporate Finance Proprietary Limited	Dormant
Kelly Group Shared Services Proprietary Limited	Dormant
Labour Solutions Australia (WA) Proprietary Limited	Flexible staffing
Labour Solutions Australia Agri Proprietary Limited	Flexible staffing
Labour Solutions Australia Constructions Proprietary Limited	Flexible staffing
Labour Solutions Australia Proprietary Limited	Flexible staffing
Labour Solutions Australia TSV Proprietary Limited	Flexible staffing
Labour Solutions Partners Proprietary Limited	Flexible staffing
M Squared Consulting MSP Proprietary Limited	Managed services provider
Mondial IT Solutions Proprietary Limited	Consulting and the supply of skills to the IT industry
Moody Blue Trade & Invest 93 Proprietary Limited	Investment holding
Paracon Australia Proprietary Limited	Dormant
Paracon SA Proprietary Limited	Supplier of IT services
Paxus Australia Proprietary Limited	Supplier of IT services
Paxus New Zealand Proprietary Limited	Supplier of IT services
PRP Solutions Proprietary Limited (sold during the year)	Productivity tools and time tracking software
Production Management Institute of Southern Africa Proprietary Limited	Training
Prior Learning Centre Proprietary Limited	Training
Quest Flexible Staffing Solutions Proprietary Limited	Dormant
Quest Staffing Solutions Proprietary Limited	Flexible staffing
Quest Staffing Solutions Proprietary Limited	Flexible staffing
Reveal Group Proprietary Limited, formerly WDB Technologies Proprietary Limited	Dormant
Research Surveys Proprietary Limited	Dormant
Sishayele Contract Centre Solutions Proprietary Limited	Dormant
Sizano Staffing Services Proprietary Limited	Dormant
TalentCru Proprietary Limited	Emergent business
TalentCru Proprietary Limited (Australia)	Emergent business
The Kelly Personnel Group Proprietary Limited	Dormant
The Personnel Concept Proprietary Limited	Dormant
Thetha Call Centre Staffing Proprietary Limited	Dormant
Tiger Tail Digital Proprietary Limited (formerly Paracon Project Management Proprietary Limited)	Dormant
Torque Holdings Proprietary Limited	Holding company
Torque Learning Solutions Proprietary Limited	Supplier of IT services
Torque Technical Computer Training Proprietary Limited	Supplier of IT services
Zest Hospitality Services Proprietary Limited	Outsourcing solutions

Share type	Authorised share capital of subsidiary/associate		Issued share capital of subsidiary/associate		Number of shares held by Adcorp	
	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000	Feb 2020 R'000
Ordinary	1 000	1 000	100	100	100	100
Ordinary	4 000	4 000	100	100	100	100
Ordinary	100	100	100	100	100	100
Ordinary	1 000	1 000	100	100	100	100
Ordinary	1 000	1 000	100	100	100	100
Ordinary	100	100	100	100	100	100
Ordinary	1 000	1 000	1 000	1 000	920	920
Ordinary	100	100	100	100	100	100
Ordinary	60 530 464	60 530 464	60 530 464	60 530 464	60 530 464	60 530 464
Ordinary	100	100	100	100	100	100
Ordinary	200	200	200	200	200	200
Ordinary	1 000	1 000	1 000	1 000	1 000	1 000
Ordinary	100 000	100 000	11 000	11 000	11 000	11 000
Ordinary	1 000	1 000	100	100	100	100
Ordinary	87 682 486	87 682 486	87 682 486	87 682 486	87 682 486	87 682 586
Ordinary	1 000	1 000	700	700	700	700
Ordinary	152 856	152 856	152 856	152 856	152 856	152 856
Ordinary	100	100	100	100	100	100
Ordinary	1	1	1	1	—	—
Ordinary	4 000	4 000	100	100	100	100
Ordinary	1 000	1 000	101	101	101	101
Ordinary	200	200	100	100	100	100
Ordinary	1 000	1 000	600	600	600	600
A' ordinary	1 000	1 000	400	400	—	—
Ordinary	4 000	4 000	1 000	1 000	1 000	1 000
Ordinary	100 000	100 000	200	200	200	200
Ordinary	1 000	1 000	100	100	100	100
Ordinary	300	300	300	300	300	300
Ordinary	1 000	1 000	100	100	100	100
Ordinary	100	100	100	100	100	100
Ordinary	4 000	4 000	100	100	100	100
Ordinary	40 000	40 000	40 000	40 000	40 000	40 000
Ordinary	4 000	4 000	1 000	1 000	750	750
Ordinary	1 000	1 000	200	200	200	200
Ordinary	1 000	1 000	332	332	332	332
Ordinary	1	1	1	1	1	1
Ordinary	1 000	1 000	100	100	100	100
Ordinary	4 000	4 000	100	100	100	100



# Shareholder information

# 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
<b>Total</b>	<b>2 464</b>	<b>100.00</b>	<b>109 954 675</b>	<b>100.00</b>
<b>Distribution of shareholders</b>				
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
<b>Total</b>	<b>2 464</b>	<b>100.00</b>	<b>109 954 675</b>	<b>100.00</b>

## Shareholder type

<b>Non-public shareholders</b>	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
<b>Total</b>	<b>2 464</b>	<b>100.00</b>	<b>109 954 675</b>	<b>100.00</b>

# Shareholder analysis continued

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
<b>Total</b>	<b>74 200 795</b>	<b>67.48</b>
<b>Beneficial shareholders with a holding greater than 5% of the issued shares</b>		
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
<b>Total</b>	<b>43 258 570</b>	<b>39.34</b>

Total number of shareholdings **2 464**

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

## Share price performance

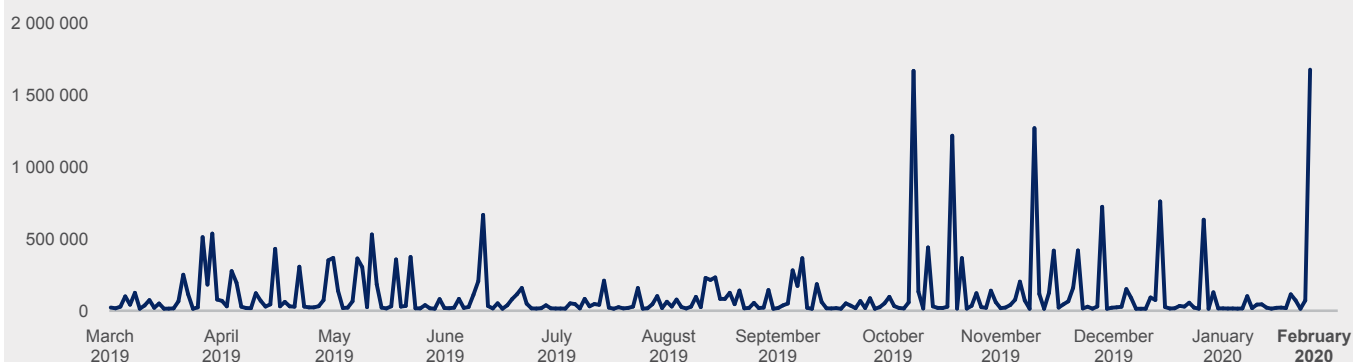
Opening price 1 March 2019	R20.00
Closing price 29 February 2020	R9.50
Closing high for period	R25.00
Closing low for period	R9.50

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

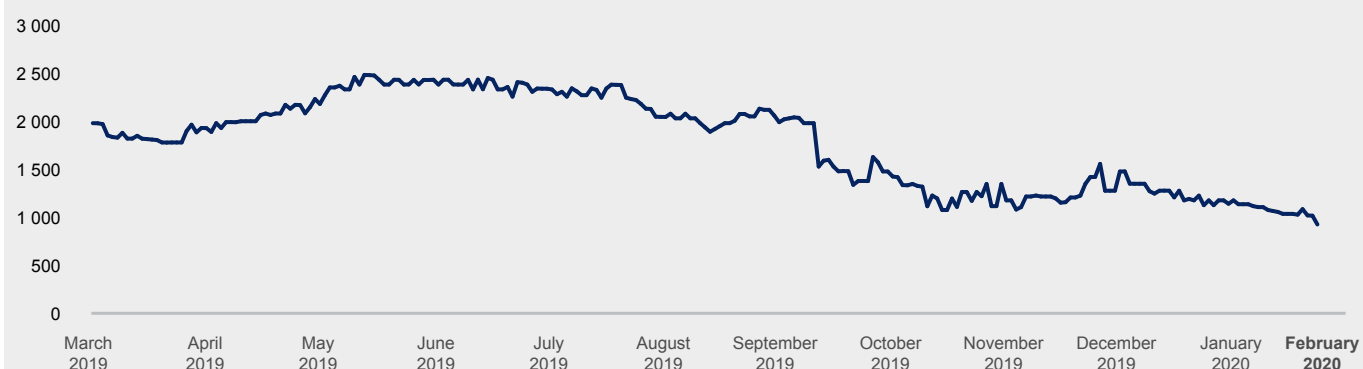
**Adcorp price chart – 1 March 2019 to 29 February 2020**  
(volume)



**Five-year share price performance**  
(cents)



**Adcorp price chart – daily closing price**  
(cents)



# Notice of annual general meeting

## Adcorp Holdings Limited

Incorporated in the Republic of South Africa  
 Registration number: 1974/001804/06  
 Share code: ADR ISIN: ZAE000000139  
 (Adcorp or the Company)

If you are in any doubt as to what action you should take in respect of the following resolutions, please consult your Central Securities Depository Participant (CSDP), broker, banker, attorney, accountant or other professional adviser immediately.

Notice is hereby given to shareholders recorded in the Company's share register on Friday, 24 July 2020, that the annual general meeting (AGM) of shareholders of Adcorp will be held, (subject to any adjournment, postponement or cancellation) at 09:00 on Thursday, 10 September 2020 electronically for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions set out hereunder.

The Board of Directors of the Company has determined, in terms of section 62(3)(a), as read with section 59 of the Companies Act, No 71 of 2008 (the Companies Act), that the record date for the purposes of determining which shareholders of the Company are entitled to participate in and vote at the AGM is Friday, 4 September 2020. Accordingly, the last day to trade Adcorp shares in order to be recorded in the register to be entitled to vote will be Tuesday, 1 September 2020.

Kindly note that meeting participants (including shareholders and proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licences or passports.

## Shareholders' diary

Event	Dates
Record date in order to be eligible to receive the AGM notice	Friday, 24 July 2020
AGM notice posted to shareholders	Wednesday, 5 August 2020
Last date to trade in order to be eligible to vote at the AGM	Tuesday, 1 September 2020
Record date in order to be eligible to vote at the AGM	Friday, 4 September 2020
Last day to lodge forms of proxy for administration purposes for the AGM and registration of electronic participation (by 09:00)	Tuesday, 8 September 2020
AGM (at 09:00)	Thursday, 10 September 2020
Results of the AGM released on SENS	Thursday, 10 September 2020

## Electronic participation in the AGM

Due to the impact of the COVID-19 pandemic and the uncertainty regarding the levels of restrictions that might be in place on public gatherings at the time of the AGM, the AGM will only be accessible through electronic participation, as provided for in terms of the provisions of the Companies Act and the Company's memorandum of incorporation (MOI). Shareholders should inform the Company Secretary at [lisa.laporte@adcorpgroup.com](mailto:lisa.laporte@adcorpgroup.com) and copy The Meeting Specialists (TMS) on [proxy@tmsmeetings.co.za](mailto:proxy@tmsmeetings.co.za) or alternatively contact TMS on +27 11 520 7952/0/1 by no later than 09:00 on Tuesday, 8 September 2020 (electronic notice).

Shareholders are able to vote through proxy submission in the usual manner, despite opting to participate electronically. Shareholders are strongly encouraged to submit votes by proxy before the AGM. TMS will assist shareholders with the requirements for electronic meeting participation. TMS is obliged to validate this information with your CSDP before providing you with the necessary means to access the voting platform. Any reference to "shareholder" in this section includes a reference to that shareholder's proxy.

### In order for the electronic notice to be valid it must contain:

1. If the shareholder is an individual, a certified copy of his/her identity document and/or passport;
2. If the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution and the relevant resolution must set out who from the relevant entity is authorised to represent the relevant entity at the AGM via electronic communication;
3. In the case of (1.) and (2.) above, the shareholders should indicate that their shareholding has been voted and the manner in which it has been cast, so as to provide the Company with assurance that they have understood that their participation is not in order to vote; and
4. A valid email address and telephone number of the participant (by no later than 48 hours prior to the time of the AGM, the Company shall use its reasonable endeavours to communicate with each shareholder who has delivered a valid electronic notice, by notifying such shareholder at its contact address and/or number of the relevant details through which the shareholder can participate via electronic communication).

# Notice of annual general meeting continued

Where the Company is required to provide for electronic participation at the AGM, the costs of accessing any means of electronic participation provided by the Company will be borne by the shareholder so accessing the electronic participation. Should a shareholder wish to vote at the AGM, he/she may do so by attending and voting at the AGM either in person or by proxy regardless of attendance in person or electronically.

## Purpose of the AGM

The purpose of the AGM is to present the annual financial statements for the year ended 29 February 2020 and to consider and, if deemed fit, to pass, with or without modification, the ordinary and special resolutions set out in this notice. The annual financial statements are presented at the AGM in accordance with section 30(3)(d) and section 60(3)(d) of the Companies Act. The complete set of annual financial statements is also available at [www.adcorpgroup.com](http://www.adcorpgroup.com)

## Ordinary resolutions

The minimum percentage of voting rights required for each of the resolutions set out in items 1 to 7 below to be adopted, is more than 50% of the voting rights exercised on each of the resolutions by shareholders present or represented by proxy at the AGM.

### 1. Ordinary resolutions number 1.1 to 1.7: Election and re-election of directors

To elect CR Smith, M Lubega and PM Roux who were appointed as directors post the previous AGM held on 30 July 2019, in accordance with the Company's MOI.

GP Dingaan and Dr SF Mufamadi are retiring from the Board at the AGM and do not offer themselves for re-election. The Board sincerely appreciates their dedication and input to the Company during their tenure.

To re-elect, by way of separate resolutions GT Serobe, S Sithole, MW Spicer and C Maswanganyi who retire by rotation in accordance with the provisions of the Company's MOI and offer themselves for re-election.

#### Details of the directors offering themselves for election and re-election are as follows:

- 1.1 M Lubega – Date of appointment 1 July 2020
- 1.2 PM Roux (Chief Executive Officer) – Date of appointment 24 April 2020
- 1.3 GT Serobe (Chairman) – Date of appointment 11 July 2017
- 1.4 S Sithole – Date of appointment 4 July 2017
- 1.5 CR Smith – Date of appointment 10 January 2020
- 1.6 MW Spicer – Date of appointment 21 August 2013
- 1.7 C Maswanganyi – Date of appointment 1 March 2017 (previously an alternate director from 11 July 2012)

Refer to pages 24 to 27 of this integrated annual report of which this notice forms part for a brief description and curriculum vitae of each director.

### 2. Ordinary resolutions number 2.1 to 2.5: Election of Audit and Risk Committee members

To elect R van Dijk and M Lubega, both independent non-executive directors, as new members of the Audit and Risk Committee and to re-elect, each by way of a separate resolution, the following independent non-executive directors set out below, as members of the Company's Audit and Risk Committee:

- 2.1 SN Mabaso-Koyana – Chairman
- 2.2 H Singh – Member
- 2.3 MW Spicer – Member, subject to his re-election as director
- 2.4 R van Dijk – Member
- 2.5 M Lubega – subject to his election as director

Refer to pages 24 to 27 of this integrated annual report of which this notice forms part for a brief description and curriculum vitae for each Audit and Risk Committee member.

### 3. Ordinary resolution number 3: Reappointment of independent external auditor

To reappoint Deloitte & Touche as the independent registered auditor of the Company and the Group for the ensuing financial year, and to note that the individual registered auditor who will undertake the audit during the financial year ending 28 February 2021 is T Marriday. The Audit and Risk Committee and the Board have evaluated the performance and independence of Deloitte & Touche and recommend their reappointment as the external auditors.

In compliance with the stipulations relating to the rotation of auditors set out in section 92 of the Companies Act, T Marriday will be the new designated auditor from Deloitte & Touche. The previous individual registered auditor was MLE Tshabalala.

### 4. Ordinary resolution number 4: Place 2 000 000 of the authorised but unissued ordinary shares under the control of the directors

To place 2 000 000 of the unissued ordinary shares in the authorised share capital of the Company under the control of the directors as a specific authority in terms of the Companies Act, from time to time, subject to the provisions of the Companies Act and the JSE Listings Requirements. These shares are specifically for the issue of shares to employees in order to meet the Company's commitment in terms of the Adcorp Holdings 2006 Share Trust.

# Notice of annual general meeting continued

## 5. Ordinary resolution number 5: Non-binding advisory vote on the remuneration policy

To endorse, by way of a non-binding advisory vote, the Group's remuneration policy, as set out in the integrated annual report on pages 36 to 40. Shareholders are reminded that in terms of King IV™, the passing of this ordinary resolution is by way of a non-binding vote. Should 25% or more of the votes cast vote against this ordinary resolution, Adcorp undertakes to engage with shareholders as to the reasons therefore. The manner and timing of such engagement, if required, shall be communicated in the voting results announcement.

## 6. Ordinary resolution number 6: Non-binding advisory vote on the remuneration implementation report

To endorse, by way of a non-binding advisory vote, the Group's remuneration implementation report, as set out in the integrated annual report on pages 40 and 41.

Shareholders are reminded that in terms of King IV™, the passing of this ordinary resolution is by way of a non-binding vote. Should 25% or more of the votes cast vote against this ordinary resolution, Adcorp undertakes to engage with shareholders as to the reasons therefore. The manner and timing of such engagement, if required, shall be communicated in the voting results announcement.

## 7. Ordinary resolution number 7: Authority to implement resolutions passed at the AGM

To resolve that the CEO or the Company Secretary of the Company be authorised to do all such things, perform all acts and sign all such documentation as may be required to give effect to the ordinary and special resolutions passed at this AGM or any adjustment thereof.

## Special resolutions

For special resolutions to be adopted, it must be supported by at least 75% (seventy-five percent) of the voting rights exercised on each special resolution by shareholders present or represented by proxy at the AGM and entitled to exercise voting rights on the resolution concerned.

## 8. Special resolution number 1: Remuneration payable to non-executive directors

Due to the current economic environment the non-executive directors' fees for the ensuing year up to the next AGM will not be increased and will remain at the rates approved by shareholders at the previous AGM. The remuneration structure, excluding value added tax, of the non-executive directors remains as follows:

	Retainer fee per meeting		Attendance fee per meeting	
	Current for 2019/2020 R	Proposed for 2020/2021 R	Current for 2019/2020 R	Proposed for 2020/2021 R
<b>Board</b>				
Chairman	95 191	95 191	142 787	142 787
Lead independent non-executive director	37 047	37 047	52 953	52 953
Non-executive director	26 508	26 508	39 763	39 763
Ad hoc work performed by non-executive directors in their role as directors (hourly rate)	0	0	2 650	2 650
<b>Audit and Risk Committee</b>				
Chairman	31 516	31 516	47 275	47 275
Non-executive director	15 759	15 759	23 637	23 637
<b>Remuneration Committee</b>				
Chairman	24 064	24 064	30 936	30 936
Non-executive director	10 446	10 446	14 555	14 555
<b>Nominations Committee</b>				
Chairman	13 741	13 741	20 613	20 613
Non-executive director	8 217	8 217	12 326	12 326
<b>Transformation, Social and Ethics Committee</b>				
Chairman	12 959	12 959	19 438	19 438
Non-executive director	8 217	8 217	12 326	12 326
<b>Investment Committee</b>				
Chairman	31 516	31 516	47 275	47 275
Non-executive director	15 759	15 759	23 637	23 637

# Notice of annual general meeting continued

## 9. Special resolution number 2: Repurchase of the Company's shares

To resolve that the Company, and/or a subsidiary of the Company, is authorised to repurchase or purchase, as the case may be, shares issued by the Company, from any person, upon such terms and conditions and in such number as the directors of the Company or the subsidiary may from time to time determine, including that such shares be repurchased or purchased subject to the applicable requirements of the Company's MOI, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time; and subject further to the restriction that the repurchase or purchase, as the case may be, by the Company and/or any of its subsidiaries, of shares in the Company of any class under this authority shall not, in aggregate in any one financial year, exceed 10% of the shares in issue in such class as at the commencement of such financial year. The repurchase of shares would be utilised to settle future vesting of shares for the employee share scheme.

**The JSE Listings Requirements provide, inter alia, that the Company, or any subsidiary of the Company, may only make a general repurchase of the shares in the Company subject to the following:**

- Any such repurchase of shares is effected through the order book operated by the trading system of the JSE Limited (JSE) and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited).
- Authorisation thereto is given by the Company's MOI.
- At any point in time, the Company may appoint only one agent to effect any repurchase(s) on its behalf.
- The general authority shall be valid only until the Company's next AGM or 15 months from the date of passing of this special resolution, whichever is earlier.
- When the Company or a subsidiary of the Company has cumulatively repurchased 3% of any class of the Company's shares in issue on the date of passing of this special resolution (the initial number), and for each 3% in aggregate of that class of shares acquired thereafter, in each case in terms of this resolution, an announcement shall be published on the Securities Exchange News Service (SENS) of the JSE, giving such details as may be required in terms of the JSE Listings Requirements.
- The Company or its subsidiaries may not repurchase any of the Company's shares during a prohibited period as defined in the JSE Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and the Company has submitted the repurchase programme to the JSE in writing. The Company will instruct an independent third party, which makes its investment decisions in relation to the Company's securities independently of, and uninfluenced by, the Company, prior to commencement of the prohibited period to execute the repurchase programme submitted to the JSE.
- No repurchases may be made at a price which is greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the transaction is effected (the maximum price). The JSE will be consulted for a ruling if the Company's securities have not traded in such a five-day period.

Prior to entering the market to repurchase the Company's shares, a Board resolution will have been passed stating that the directors have authorised the repurchase of shares under this general authority and that Adcorp and/or its subsidiaries have passed the solvency and liquidity test as set out in the Companies Act.

### Adequacy of working capital in terms of section 11.26 of the JSE Listings Requirements

The directors of the Company will ensure that, after considering the effect of the maximum repurchase:

- (i) the Company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of the notice of AGM;
- (ii) assets of the Company and the Group will be in excess of the liabilities of the Company and the Group for a period of 12 months after the date of the notice of AGM. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited Group annual financial statements;
- (iii) share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of AGM; and
- (iv) working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of the notice of AGM.

### Other disclosure in terms of section 11.26 of the JSE Listings Requirements

The JSE Listings Requirements require the following disclosure, which is contained in the integrated annual report of which this notice forms part:

- Major shareholders of the Company on pages 154 and 155.
- Stated capital of the Company page 125.

### Material change

There have been no material changes in the affairs or financial position of the Company and its subsidiaries since the Company's financial year end and the date of this notice.

# Notice of annual general meeting continued

## Directors' responsibility statement

The directors, whose names are given on pages 24 to 27 of this integrated annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 2 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolutions contain all such information as required by law and the JSE Listings Requirements.

### 10. Special resolution number 3: Financial assistance for the provision of loans or other financial assistance to present or future related and inter-related companies

To authorise the directors, in terms of and subject to the provisions of section 44 of the Companies Act, to cause the Company to provide financial assistance by way of a loan, guarantee, the provision of security or otherwise to any person for the purpose of, or in connection with, the subscription of any debt securities, issued or to be issued by the Company or a present or future-related or inter-related company or for the purchase of any debt securities of the Company or a present or future-related or inter-related company in terms of section 44 of the Companies Act.

To authorise the directors, in terms of and subject to the provisions 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 inter-related to the Company, for such amounts and on such terms and conditions as the Board of the Company may determine.

## Voting and proxies

1. An ordinary and/or "B" ordinary shareholder entitled to attend and vote at the AGM may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the AGM in the place of the shareholder. A proxy need not be a shareholder of the Company.
2. A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment, remains valid only until the end of the AGM.
3. A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
4. The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.
5. The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the Company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the Company as required in the first sentence of this paragraph.
6. If the instrument appointing the proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the Company's MOI to be delivered by the Company to the shareholder, must be delivered by the Company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has
  - (i) directed the Company to do so in writing; and
  - (ii) paid any reasonable fee charged by the Company for doing so. Attention is also drawn to the "Explanatory notes regarding proxy".

It is recommended that forms of proxy should be delivered to The Meeting Specialists (TMS) at [proxy@tmsmeetings.co.za](mailto:proxy@tmsmeetings.co.za) or alternatively contact TMS on +27 11 520 7952/0/1 so as to reach this address by no later than 09:00 on Tuesday, 8 September 2020.

Shareholders who have dematerialised their shares, other than with "own name" registration, should contact their CSDP or stockbroker:

- to furnish their CSDP or stockbroker with their voting instructions; or
- in the event that they wish to attend the meeting, to obtain the necessary letter of representation to do so.

This must be done in terms of the agreement entered into between the shareholder and the CSDP or stockbroker concerned.

Any shareholder having difficulties or queries with regard to the above may contact the Company Secretary via email at [lisa.laporte@adcorpgroup.com](mailto:lisa.laporte@adcorpgroup.com).

By order of the Board

# Form of proxy



## Adcorp Holdings Limited

Incorporated in the Republic of South Africa  
 Registration number: 1974/001804/06  
 Share code: ADR ISIN: ZAE000000139  
 (Adcorp, the Company or the Group)

This form of proxy relates to the annual general meeting (AGM) to be held electronically on Thursday, 10 September 2020, at 09:00 and is for use by certificated ordinary shareholders and dematerialised shareholders with "own name" registrations on the date of the meeting.

Please print clearly when completing this form and see the instructions and notes at the end of this form for an explanation of the use of this form of proxy and the rights of the shareholder and the proxy.

I/We (full name in block letters)

of (address)

being a shareholder of the Company and the registered holder(s) of  ordinary shares of the Company do hereby appoint  or failing him/her

the Chairman of the AGM, to attend and participate in the meeting and to speak and vote or abstain from voting for me/us and on my/our behalf in respect of all matters arising (including any poll and all resolutions put to the meeting) at the meeting, even if the meeting is postponed, and at any resumption thereof after any adjournment.

Please indicate with an "X" in the appropriate spaces below how you wish your votes to be cast. Unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

No	Resolution	In Favour	Against	Abstain
1.	Ordinary resolutions number 1.1 to 1.7: Election and re-election of directors 1.1 M Lubega 1.2 PM Roux 1.3 GT Serobe 1.4 S Sithole 1.5 CR Smith 1.6 MW Spicer 1.7 C Maswanganyi			
2.	Ordinary resolutions number 2.1 to 2.5: Election of Audit and Risk Committee members 2.1 SN Mabaso-Koyana 2.2 H Singh 2.3 MW Spicer 2.4 R van Dijk 2.5 M Lubega			
3.	Ordinary resolution number 3: Reappointment of independent external auditor			
4.	Ordinary resolution number 4: Place 2 000 000 of the authorised but unissued ordinary shares under the control of the directors			
5.	Ordinary resolution number 5: Non-binding advisory vote on the remuneration policy			
6.	Ordinary resolution number 6: Non-binding advisory vote on the remuneration implementation report			
7.	Ordinary resolution number 7: Authority to implement resolutions passed at the AGM			
8.	Special resolution number 1: Remuneration payable to non-executive directors			
9.	Special resolution number 2: Repurchase of the Company's shares			
10.	Special resolution number 3: Financial assistance for the provision of loans or other financial assistance to present or future related and inter-related companies			

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2020

Signature

Please provide contact details: Tel ( ) Mobile ( )

Email

Each member is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote in place of that member at the AGM.

Please read the explanatory notes to the form of proxy.



## Explanatory notes regarding proxy

1. The form of proxy must only be used by shareholders who hold shares in certificated form or who are recorded on the sub-register in electronic form in "own name".
2. All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the AGM must provide the CSDP or broker with their voting instructions in terms of the relevant agreement entered into between them and the CSDP or broker.
3. An ordinary and/or "B" ordinary shareholder entitled to attend and vote at the AGM may insert the name of a proxy or the names of two or more alternate proxies of the shareholder's choice in the space provided, with or without deleting "the Chairman of the AGM". The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of such proxy(ies) whose names follow.
4. An ordinary and/or "B" ordinary shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary and/or "B" ordinary share held. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. If an "X" has been inserted in one of the blocks to a particular resolution, it will indicate the voting of all the shares held by the shareholder concerned. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the AGM as he/she deems fit in respect of all the shareholder's exercisable votes. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or the proxy.
5. A vote given in terms of an instrument of proxy will be valid in relation to the AGM despite the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the proxy is given, unless notice on any of the noted matters has been received by the transfer secretaries not less than 48 hours before the start of the AGM.
6. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the AGM be proposed, such proxy shall be entitled to vote as he/she thinks fit.
7. The Chairman of the AGM may reject or accept any form of proxy which is completed and/or received other than in compliance with the Act, the MOI and these notes.
8. A shareholder's authorisation to the proxy, including the Chairman of the AGM, to vote on such shareholder's behalf, will be deemed to include the authority to vote on procedural matters at the AGM.
9. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the AGM and speaking and voting in person to the exclusion of any proxy appointed in terms hereof.
10. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by the Company's transfer secretaries or it is waived by the Chairman of the AGM.
11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by the transfer secretaries of the Company.
12. Where there are joint holders of shares:
  - any one holder may sign the form of proxy; and
  - the vote(s) of the senior shareholder(s) (for that purpose seniority will be determined by the order in which the names of shareholders appear in the Company's register of shareholders) who tender(s) a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
13. It is recommended that forms of proxy be lodged with or mailed to the Company Secretary at [lisa.laporte@adcorpgroup.com](mailto:lisa.laporte@adcorpgroup.com) and copied to The Meeting Specialists (TMS) on [proxy@tmsmeetings.co.za](mailto:proxy@tmsmeetings.co.za) or alternatively contact TMS on +27 11 520 7952/0/1 by no later than 09:00 on Thursday, 10 September 2020. A proxy form not lodged by this time may be handed to the Chairman before the due commencement of the voting of the meeting.
14. A deletion of any printed matter and the completion of any blank space need not be signed or initialled. Any alteration or correction must be signed and not merely initialled.

## Glossary/abbreviations

Abbreviation	Description
AFS	Annual Financial Statements
AGM	Annual General Meeting
ARC	Audit and Risk Committee
Assignees	Temporary employees are recruited, screened, trained and employed by the TES provider, then assigned to client organisations
Adcorp / the Company	Adcorp Holdings Limited
Adcorp Group / the Group / the business	Adcorp group of companies
Board	The Board of Directors of Adcorp
Deloitte/ Deloitte & Touche / the external auditors	The external auditors for the Adcorp Group
Business / the business	The business conducted within the Adcorp Group
B-BBEE	Broad-Based Black Economic Empowerment
Candidate	A job applicant or prospective employee
Chair / Chairman	The Chairman of the Board
CIPC	Companies and Intellectual Property Commission
Companies Act	Companies Act 71 of 2008
Deployed Permanent Employee	A permanent employee who has been deployed/outsourced to a client company
DSO	Days Sales Outstanding is a measure of the average number of days that it takes a company to collect payment after a sale has been made
EPS	Earnings Per Share is the portion of the company's profit allocated to each outstanding share.
EBITDA	Earnings (i.e. operating profit) before interest, tax, depreciation and amortisation
EE	Employment Equity
ETI	Employment Tax Incentive is a SARS tax incentive which reduces the cost of hiring young people by reducing the amount of PAYE owed by the employer to SARS without affecting the employees' wages
GDP	Gross Domestic Product
HEPS	Headline earnings per share
IAR	Integrated Annual Report
IIRC	International Integrated Reporting Council
IFRS	International Financial Reporting Standards
Independent Contractor	An independent contractor is a self-employed individual performing services for a company under contract rather than as an employee, either on or off site
Insourced Temporary Employees	Employees that are hired from outside agencies and managed through the MSP model to render services to client companies
JSE	Johannesburg Stock Exchange Limited
King IV™ / King IV™ Report	King IV Report on Corporate Governance for South Africa 2016. The copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved

LRA	Labour Relations Act 66 of 1995 is a South African statute that regulates labour relations and collective bargaining in the workplace. The LRA contains provisions outlining the labour relations rights and responsibilities of employers, trade unions and employees
LTI	Long-term incentive
MSP	Managed Service Provision is a service whereby a company takes on primary responsibility for managing an organisation's contingent workforce programme, including overall programme management, reporting and tracking, supplier selection and management, order distribution and consolidated billing
NPAT	Net profit after tax
NMW	National Minimum Wage
Nomco	Nominations Committee
Permanent Employee	An employee who works for and is paid directly by a specific employer without a predetermined end date for the employment arrangement. Permanent employees are often eligible for employment benefits e.g. paid leave, health insurance and retirement plan access
Remco	Remuneration Committee
Report / IAR	Adcorp Integrated Annual Report for the year ending 29 February 2020
ROIC	Return on Invested Capital is the percentage return that a company makes over its invested capital
RPO	Recruitment Process Outsourcing is the partial or full outsourcing of a company's internal recruitment function to a third-party specialist provider, for all its direct hire (permanent workers) recruitment needs
SENS	Stock Exchange News Service
SETA	Sector Education and Training Authority in South Africa. It governs skills development through learnerships, internships, unit-based skills programmes, and apprenticeships
STI	Short-term incentive
TES	Temporary Employment Services are, according to the LRA, employees who work for a client on a temporary basis and are paid by the temporary employment service provider
TGP	Total guaranteed package calculated using a total cost to company methodology
TSEC	Transformation, Social and Ethics Committee

# Contact details

## Adcorp Holdings Limited

Registration number 1974/001804/06  
Listed on the JSE in 1987  
Share code: ADR  
ISIN: ZAE000000139  
Website: [www.adcorpgroup.com](http://www.adcorpgroup.com)

## Registered office

### Adcorp Holdings Limited

Adcorp Place, 102 Western Service Road,  
Gallo Manor Ext 6, Johannesburg, South Africa, 2191  
PO Box 70635, Bryanston, Johannesburg, South Africa, 2021  
Tel: +27 (0)10 800 0000  
Email: [info@adcorp.co.za](mailto:info@adcorp.co.za)

## Company Secretary

### Lisa Laporte

Adcorp Place, 102 Western Service Road,  
Gallo Manor Ext 6, Johannesburg, South Africa, 2191  
PO Box 70635, Bryanston, Johannesburg, South Africa, 2021  
Tel: +27 (0)10 800 0000  
Direct Tel: +27 (0)10 800 0786  
Email: [lisa.laporte@adcorpgroup.com](mailto:lisa.laporte@adcorpgroup.com)

## Investor relations

### Nomonde Xulu

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Gallo Manor Ext 6, Johannesburg, South Africa, 2191  
PO Box 70635, Bryanston, Johannesburg, South Africa, 2021  
Tel: +27 (0)10 800 0000  
Direct Tel: +27 (0)10 800 0209  
Email: [nomonde.xulu@adcorpgroup.com](mailto:nomonde.xulu@adcorpgroup.com)

## External auditors

### Deloitte & Touche

5 Magwa Crescent  
Midrand  
South Africa  
2066  
Tel: +27 (0)11 806 5000

## Legal advisers

### Eversheds Sutherland SA

3rd Floor, 54 Melrose Boulevard, Melrose Arch,  
Melrose North, Johannesburg, South Africa, 2196  
PO Box 782244, Sandton City, Johannesburg,  
South Africa, 2146  
Tel: +27 (0)87 358 9857  
Email: [petervanniekerk@eversheds-sutherland.co.za](mailto:petervanniekerk@eversheds-sutherland.co.za)

## Transfer secretaries

### 4 Africa Exchange Registry Proprietary Limited

Hill On Empire, 4th Floor, Building A, 16 Empire Road, Parktown,  
Johannesburg, South Africa, 2193  
Tel: +27 (0)11 100 8352  
Email: [adcorp@4axregistry.co.za](mailto:adcorp@4axregistry.co.za)

## Sponsors

### PSG Capital

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7600  
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Email: [riaanhv@psgcapital.com](mailto:riaanhv@psgcapital.com)

