



adcorp
Connecting Potential

**Audited consolidated
financial statements**

for the year ended 29 February 2020

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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 2 to 8.

The audited consolidated financial statements set out on pages 15 to 85, 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 15 to 85, 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.

Key audit matter
Key judgements applied in the going concern assessment

The global impact of COVID-19 has resulted in an unprecedented increased level of economic uncertainty. This uncertainty has an impact on the outlook of the future cash flows of the 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.

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.

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.

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.

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.

The judgements applied with respect to the directors reaching their going concern conclusion are disclosed in note 37 of the consolidated financial statements.

How the matter was addressed in the audit

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.

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:

- Testing the design and implementation of controls around the going concern assessment and the judgements applied.
- Assessing the operational disruptions COVID-19 and the lockdown created in the various 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.
- 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:
 - Value and availability of financing facilities.
 - Reasonability of the projected monthly revenue and monthly cash collections.
 - Reasonability of cost saving initiatives being proposed.
 - Reasonability and approval for the sale of the businesses as disclosed in note 3.
 - Assessing future looking covenants and impact of any potential breaches.
 - Challenging the reasonableness of the scenarios identified and key assumptions used by management in determining the impact of the COVID-19 pandemic on going concern.
 - Performing sensitivity analysis by assessing the impact on the headroom of the available banking facilities under various scenarios.
 - In evaluating the appropriateness of future cash flows we involved specialist from our financial advisory services team.
- Inspecting the new signed facility for R850 million effective at 1 July 2020.
- Leveraging the expertise and guidance of our IFRS accounting and local and global COVID-19 specialist teams.
- Assessing the related disclosure relating to going concern in the consolidated financial statements.

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.

We consider the disclosures in note 37 to the consolidated financial statements to be appropriate.

Independent auditor's report continued

Key audit matter	How the matter was addressed in the audit
<p data-bbox="113 342 798 405">Accounting for the implementation of IFRS 16 Leases (IFRS 16), and the disclosure thereof in the consolidated financial statements</p> <p data-bbox="113 427 798 562">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 data-bbox="113 573 798 730">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 data-bbox="113 741 798 931">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 data-bbox="113 943 798 1028">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 data-bbox="113 1039 798 1151">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 data-bbox="798 427 1476 506">We focused our testing of the implementation of IFRS 16 on the key assumptions made by the directors. Our audit procedures included:</p> <ul data-bbox="798 506 1476 1077" style="list-style-type: none"> • Testing the design and implementation of relevant controls over the IFRS 16 calculations and disclosures; • Engaging our internal specialists to assist with: <ul data-bbox="798 584 1476 954" style="list-style-type: none"> • Reviewing the appropriateness of the discount rate methodology applied for the purpose of discounting lease payments as per IFRS 16. • 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; • Reviewing the appropriateness of the credit spread or financing spread adjustment applied. • Testing the acceptability of the incremental borrowing rate estimates by calculating an incremental borrowing rate using a process consistent with generally accepted valuation practices. • Assessing the appropriateness of the lease terms used in the right-of-use asset and lease liability calculation. • Recomputing the right-of-use value assets and lease liabilities at implementation and reporting date. • Assessing the related disclosure relating to IFRS 16 in the consolidated financial statements. <p data-bbox="798 1099 1476 1207">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 data-bbox="798 1218 1476 1305">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>

Key audit matter

Impairment assessment of the valuation of goodwill

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.

As required by IAS 36 *Impairment of Assets* (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.

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.

The key assumptions with the most significant impact on the valuation models include:

- Growth rates applied to revenue, operating profits and Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA). The growth rates are highly subjective since they are based on the directors' experience and expectations rather than observable market data;
- Terminal growth rates applied to the valuation models; and
- The discount rates applied to the projected future cash flows. The discount rate is subjective and the calculation is complex.

The impairment assessment of goodwill is considered to be a key audit matter as a result of judgement required to be applied by the directors.

The directors concluded that events due to COVID-19 pandemic are a non-adjusting subsequent events. The most significant impact of this assessment is that all assets and liabilities are measured based on information as at 29 February 2020.

How the matter was addressed in the audit

We concurred with the directors determination that events due to COVID-19 pandemic are a non-adjusting subsequent events.

We focused our testing of the impairment of goodwill on the key assumptions made by the directors. Our audit procedures included:

- 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.
- Engaging our internal specialists to assist with:
 - 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.
 - Validating the assumptions used to calculate the discount rates and independently recalculating the discount and growth rates.
- Analysing the future projected cash flows used in the models to determine whether they are reasonable and supportable given the current economic climate and expected future performance of the cash-generating units.
- 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.
- 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.

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.

The disclosures of the goodwill and intangible assets are consistent with the requirements of IFRS 3 *Business Combinations*, IAS 38 *Intangible Assets* and IAS 36.

Independent auditor's report continued

Key audit matter	How the matter was addressed in the audit
<p>Recoverability of deferred tax assets</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"> • Testing the design and implementation of relevant controls over the computation and assessment of tax and deferred tax; • Analysing the current and deferred tax calculations for compliance with the relevant tax legislation. • 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; • 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 • 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. <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>
<p>Recoverability of trade accounts receivable balance (expected credit loss)</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"> • Credit terms. • Expected credit loss ratios. • Forward looking adjustments. • Provisions raised on specific outstanding debtors. • Insured debt collateral. <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"> • Testing the design and implementation of relevant controls over expected credit loss calculation. • Obtained management's calculations in determining the loss allowance based on the expected credit loss model. • Assessing the assumptions used in the expected credit loss valuation model for reasonableness. • Testing the inputs underpinning the credit loss valuation model to supporting evidence. • Assessing whether the presentation and disclosures of the trade receivables balance is in accordance with the disclosure requirements of IFRS 9. <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>

Key audit matter	How the matter was addressed in the audit
<p>Financial close and reporting process</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>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"> • Assessing the design and implementation of key controls over the financial close and reporting process. • Performing detail tests on the consolidation journals to ensure that there have been validly recorded. • Assessing the key judgements as noted in the KAMs above. • 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. <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.

Independent auditor's report continued

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.

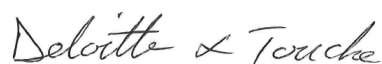
We communicate with the Audit and Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 Marrayday 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 Marrayday 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:

	CGU	Valuation model	Post-tax discount rate	Terminal growth rate applied	Headroom calculated (R)	Impairment recognised (R)
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.

Directorate and secretary

The directors during the year are as follows:

Name	Current year appointments and resignations
Directors during the year	
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
Company secretary	
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

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.

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 be 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
Assets			
Non-current assets			
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
Current assets		2 358 770	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	—
Total assets		4 007 306	4 359 149
Equity and liabilities			
Capital and reserves			
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
Interest-bearing liabilities		1 499 344	892 189
Non-current liabilities			
Long-term loans	17	—	690 466
Lease liabilities	6	404 021	—
Provisions		—	6 660
Current liabilities		1 095 323	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
Non-interest-bearing liabilities		1 293 356	1 561 486
Non-current liabilities			
Deferred taxation	9	85 655	104 077
Current liabilities		1 207 701	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	—
Total equity and liabilities		4 007 306	4 359 149

Consolidated statement of profit or loss

for the year ended 29 February 2020

	Notes	2020 R'000	Restated* 2019 R'000
Continuing operations			
Revenue	20	13 058 347	14 526 509
Cost of sales		(11 495 905)	(12 530 028)
Gross profit		1 562 442	1 966 481
Other income	21	28 302	44 678
Operating expenses		(1 250 157)	(1 582 707)
Earnings before depreciation and amortisation		340 587	458 452
Depreciation and amortisation		(145 305)	(79 416)
Operating profit		195 282	379 036
Interest income	23	22 592	21 031
Interest expense	24	(128 091)	(104 728)
Impairment expense		(613 373)	(6 821)
Net profits from the sale of entities	32	(715)	574
(Loss)/profit before taxation		(524 305)	289 092
Taxation expense	10	(84 226)	(32 808)
(Loss)/profit for the year from continuing operations		(608 531)	256 284
Discontinued operations			
Profit for the year from discontinued operations	3	4 781	5 861
(Loss)/profit for the year		(603 750)	262 145
(Loss)/profit attributable to:			
Owners of the parent from continuing operations		(608 845)	255 811
Owners of the parent discontinued operations		4 781	5 861
Non-controlling interest		314	473
Continuing operations	25		
Basic (loss)/earnings per share – cents		(565.1)	234.6
Diluted (loss)/earnings per share – cents		(565.1)	228.9
Discontinued operations	25		
Basic earnings per share – cents		4.4	5.4
Diluted earnings per share – cents		4.4	5.2
Total basic (loss)/earnings per share			
Basic (loss)/earnings per share – cents	25	(560.7)	240
Diluted (loss)/earnings per share – cents		(560.7)	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
Continuing operations		
(Loss)/profit for the year	(603 750)	262 145
Other comprehensive income/(loss)**		
Exchange differences on translating foreign operations	(4 109)	3 975
Exchange differences arising on the net investment of a foreign operation	6 582	23 527
Discontinued operations		
Exchange differences on translating foreign operations	1 282	6 799
Other comprehensive income for the year, net of tax	3 755	34 301
Total comprehensive (loss)/income for the year	(599 995)	296 446
Total comprehensive (loss)/income attributable to:		
Owners of the parent continuing operations	(606 372)	283 313
Owners of the parent discontinued operations	6 063	12 660
Non-controlling interest	314	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
Balance as at 28 February 2018	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	—	—	—	—
Balance as at 28 February 2019	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	—	—	—	—
Balance as at 29 February 2020	2 749	1 738 109	(68 083)	166 794

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
Operating activities			
Profit/(loss) before taxation		(517 864)	297 723
From continuing operations		(524 305)	289 092
From discontinued operations	3	6 441	8 631
Adjusted for:			
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
Cash generated from operations before working capital changes		338 560	442 548
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)
Cash generated by operations		213 064	500 014
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)
Net cash generated (utilised) by operating activities		(18 126)	350 256

	Notes	2020 R'000	2019 R'000
Investing activities			
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
Net cash generated (utilised) from investing activities		(72 712)	16 703
Financing activities			
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)	—
Net cash utilised by financing activities		47 101	(348 981)
Net (decrease)/increase in cash and cash equivalents		(43 737)	17 978
Cash and cash equivalents at the beginning of period/year	14	366 630	348 652
Cash and cash equivalents at the end of the year	14	322 893	366 630

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			
	136 022	13 058 347	—	—	—	8 527 293	4 531 054	13 058 347
	149 336	14 526 194	315	—	315	9 603 405	4 923 104	14 526 509
	—	235 947	16 523	—	16 523	252 470	—	252 470
	—	643 363	13 609	—	13 609	656 972	—	656 972
	53 411	269 554	(23 581)	(50 691)	(74 272)	164 597	30 685	195 282
	63 389	785 515	(360 117)	(46 363)	(406 480)	274 021	105 014	379 035
	69 295	620 089	(264 712)	(14 790)	(279 502)	268 059	72 528	340 587
	65 189	811 497	(329 762)	(23 284)	(353 046)	323 177	135 274	458 451
	3 308	80 565	41 382	23 358	64 740	103 209	42 096	145 305
	1 518	41 497	14 738	23 181	37 919	49 053	30 363	79 416
	15 548	128 009	(106 076)	659	(105 417)	21 930	662	22 592
	10 245	127 241	(107 553)	1 343	(106 210)	19 571	1 460	21 031
	(7 311)	(64 651)	(49 196)	(14 244)	(63 440)	(113 846)	(14 245)	(128 091)
	(4 578)	(72 128)	(16 676)	(15 820)	(32 496)	(88 804)	(15 820)	(104 624)
	12 252	33 287	69 643	(18 704)	(50 939)	(78 378)	(5 848)	(84 226)
	16 459	(16 729)	63 727	(11 420)	52 307	5 036	30 542	35 578
	29 810	2 838 588	601 049	451 630	1 052 679	2 741 504	1 149 763	3 891 267
	184 585	3 282 260	558 052	518 837	1 076 889	3 056 971	1 302 178	4 359 149
	17 040	1 253 908	1 286 176	252 616	1 538 792	2 174 701	617 999	2 792 700
	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
	13 538 899	15 065 441
<i>Operating profit/(loss)</i>		
Continuing operations	195 282	379 035
Discontinued operations	6 435	30 182
	201 717	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
Profit or loss		
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)
Net profit after tax	4 781	5 861
Other comprehensive income		
Exchange differences arising on translating foreign operations	1 282	6 799
Total comprehensive income	6 063	12 660
Attributable to:		
Dare – Australia	6 063	11 798
Rest of Africa	—	862
	6 063	12 660
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.		
Assets		
Non-current assets held for sale	295	—
Property and equipment	295	—
Current assets held for sale	115 744	—
Trade and other receivables	111 823	—
Cash	3 921	—
Total	116 039	—
Non-current liabilities associated with assets classified as held for sale		
Trade and other payables	37 725	—
Provisions	—	—
Tax payable	1 134	—
Total	38 859	—

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

	Computer and office equipment, furniture and fittings, and work in progress			Total 2019 R'000
	Leasehold improvements		Total	
	2020 R'000	2020 R'000	2020 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)
Current year movements				
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)
Net book value at the end of the year	33 474	38 738	72 212	57 647
Represented by:				
Assets at cost	72 481	143 708	216 189	181 585
Accumulated depreciation	(39 007)	(104 970)	(143 977)	(123 938)
Net book value at the end of the year	33 474	38 738	72 212	57 647

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
Intangible assets						
Balance at the beginning of the year	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
Net book value at the end of the year	70 431	48 553	82 377	9 607	210 968	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
Net book value at the end of the year	70 431	48 553	82 377	9 607	210 968	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)
Amortisation method used	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
Internally generated or acquired	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.

	Buildings 2020 R'000	Printers 2020 R'000	Total 2020 R'000
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
	410 671	4 246	414 917

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.

	Buildings 2020 R'000	Printers 2020 R'000	Total 2020 R'000
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
	493 029	4 449	497 478

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

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

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
Adcorp entity	
Torque IT	(3 148)
Adcorp Management Services	(34 063)
Adcorp Workforce Solutions Proprietary Limited	(1 492)
Total impairment	(38 703)

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
Cost		
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
Closing balance	1 591 176	1 586 297
Impairment		
Opening balance	(397 486)	(390 665)
Impairment of goodwill during the year	(558 081)	(6 821)
Closing balance	(955 567)	(397 486)
Carrying amount at the end of the year	635 609	1 188 811
After recognition of impairment losses, the carrying amount of goodwill is attributable to the following material CGUs:		
Industrial Services	142 307	478 818
South Africa	83 109	288 657
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
Australia	59 198	190 161
Labour Solutions Australia Group of Companies	59 198	190 161
Financial Services	148 656	148 656
FMS, a division of Adcorp Support Services Proprietary Limited	148 656	148 656
Professional Services	344 646	561 337
South Africa	128 612	348 331
Adcorp Workforce Management Solutions Proprietary Limited	128 612	341 061
DAV Professional Placement Group, a division of Adcorp Fulfilment Services Proprietary Limited	—	7 270
Australia	216 034	213 006
Paxus Holdings Pte	207 600	204 041
TalentCru Proprietary Limited	8 434	8 965
Total	635 609	1 188 811

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:		
Industrial Services		
South Africa		
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)	
Australia		
Razzbri Proprietary Limited	—	(6 821)
Labour Solutions Australia Group of Companies	(132 813)	
Professional Services		
Adcorp Workforce Management Solutions Proprietary Limited	(212 449)	
DAV Professional Placement Group, a division of Adcorp Fulfilment Services Proprietary Limited	(7 271)	
Total	(558 081)	(6 821)

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
Closing balance*	17 620	15 247

* 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
Investment – reconciliation of movements		
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
Analysis of financial assets restricted in Angola		
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.

GROUP	As at 28 February 2019	Income statement movements	Other compre- hensive movements	As at 29 February 2020
Deferred tax assets				
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
Deferred tax liability				
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
Reconciliation of estimated tax losses available in the Group:		
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
Which consists of:		
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.

	2020 R'000	2019 R'000
CONTINUED OPERATIONS		
Current tax		
– Current year	78 591	69 892
– Prior year under (over) provision	(11 125)	—
Deferred tax		
– Current year	15 904	(34 314)
– Prior year (over) underprovision	531	—
Foreign tax		
– Foreign withholding tax	325	—
	84 226	35 578
Income tax recognised in the other comprehensive income		
Deferred taxation		
– Exchange differences of net investment of foreign operations	2 560	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
Profit/(loss) before tax	(524 305)	289 092
South African standard tax rate (%)	28	28
Normal tax at standard rate	(146 805)	80 946
Adjustment for the tax effect at the standard rate of the following items:		
Exempt income		
– Incentive income	(16 213)	(28 595)
Non-deductible items charged against income:		
– Non-deductible expenses	6 691	2 714
– Impairment of intangible assets, goodwill and loans	154 576	1 910
– Share-based payments – permanent	1 937	4 188
Non-taxable income	176	—
Fair value adjustments	(664)	—
Special allowances claimed:		
– Learnerships	(10 099)	(14 992)
– Other special allowances	—	(1 286)
Current year tax losses not recognised	58 481	33 993
Prior year unrecognised tax losses utilised in current year	(16 844)	(4 728)
Prior year losses recognised	(6 429)	(47 778)
Prior year losses derecognised	66 188	8 423
Prior year overprovision	13	—
Rate change adjustment	195	—
Foreign currency rate differential	—	(1 965)
Other	3 292	(304)
Prior year under provision of current tax	(10 269)	282
Deferred tax on interest		
Actual tax charge for the year	84 226	32 808
DISCONTINUED OPERATIONS		
Current tax		
– Current year	1 660	2 770
Deferred tax		
Total Group	85 886	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
Net cash payment	(20 045)	(62 319)

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:		
South Africa	1 924 851	2 086 490
Australia	1 432 680	1 512 942
	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

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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

	2020 R'000	2019 R'000
Other receivables	91 849	103 712
Deposits	3 884	3 935
Prepayments and sundry billings	32 388	27 714
Sundry loans	—	216
Other*	55 577	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

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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
Group facilities		
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
Total facilities	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.		
Total facilities available	1 505 655	1 557 657
South Africa	1 150 000	1 150 000
Australia	355 655	407 657
Total facilities utilised	1 001 684	885 302
South Africa	770 000	650 000
Australia	231 684	235 302
Available facilities	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
Share capital and share premium		
Authorised		
183 177 151 ordinary shares of 2,5 cents each (2019: 183 177 151)	4 579	4 579
16 822 849 "B" ordinary shares of 2,5 cents each (2019: 16 822 849)	421	421
	5 000	5 000
Issued		
109 954 675 ordinary shares of 2,5 cents each (2019: 109 954 675)	2 749	2 749
16 822 849 "B" ordinary shares of 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)
Share premium	1 738 109	1 738 109
Closing balance*	1 738 109	1 738 109
Total share capital and share premium	1 740 858	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

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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
Share-based payment reserve		
Opening balance	161 774	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
Expense charge arising from equity-settled share-based schemes	5 020	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
Closing balance	166 794	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
Senior management long-term incentive scheme	(2 186)	17 258
Expense arising from equity-settled share-based payment transactions	(2 186)	17 258
Adcorp Employee Benefit Trust and B-BBEE Shareholder's interest	7 206	7 206
Expense arising from equity-settled share-based payment transactions	7 206	7 206
Total expense arising from equity-settled share-based payment transactions	5 020	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
Senior management long-term incentive scheme				
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

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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
Issued		
"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
	676	676

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
Adcorp Employee Benefit Fund Trust 2				
"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			—	690 466
Amortising revolving loan	JIBAR +340	Six equal instalments on the last of each of the five months prior to 30 November 2020	—	200 000
Amortising term loan	JIBAR +340	Equal semi-annual instalments due August 2020 and February 2021	—	450 000
Amortising revolving loan	2.9% – 3.15%	2021	—	40 466

17.2 Short-term portion

	Interest rate	Maturity	2020 R'000	2019 R'000
Long-term loans – current portion			1 001 684	194 836
Amortising term loan	JIBAR +340	Six equal instalments on the last of each of the five months prior to 30 November 2020	570 000	—
Amortising revolving loan	JIBAR +340	Equal semi-annual instalments due August 2020 and February 2021	200 000	—
Amortising revolving loan	2.9% – 3.15%	2020 and February 2021	231 684	194 836

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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
Trade creditors	1 010 646	1 111 233
VAT	149 664	205 863
Operating expense accruals	208 055	220 548
Payroll accruals	200 352	213 715
IFRS 15 contract liabilities	336 677	338 279
Other creditors	60 889	55 899
Obligation under finance leases	55 009	66 870
	—	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.	46 253	35 180
Customer liabilities – Permanent placements	Revenue is recognised when at the point in time when placed candidates begin employment.	174	625
Customer liabilities – Outsource-based solutions	Revenue is recognised at the point in time that the solution has been delivered to the customer.	436	550
Customer liabilities – Temporary placements	Revenue is recognised over time as the services are rendered.	14 026	19 544
Total current customer liabilities		60 889	55 899

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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

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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
Other income	28 302	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

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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
Continuing operations		
Basic (loss)/earnings per share – cents	(565.1)	234.6
Diluted (loss)/earnings per share	(565.1)	228.9
Discontinuing operations		
Basic earnings per share – cents	4.4	5.4
Diluted earnings per share	4.4	5.2
Total basic loss per share – cents		
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:		
Reconciliation of diluted number of shares		
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)	—
Diluted number of shares	107 732 131	111 754 773
Reconciliation of headline (loss)/earnings from continuing operations**		
(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
Reconciliation of headline earnings from discontinued operations**		
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
Reconciliation of headline (loss)/earnings from total operations		
(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

Executive directors 2020	Salary R'000	Bonus R'000	Employee benefits R'000	Sub-total R'000	Realised gains on share options R'000	Separation costs R'000	Notice and leave pay R'000	Total R'000
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

Executive directors 2019	Salary R'000	Bonus R'000	Employee benefits R'000	Sub-total R'000	Realised gains on share options R'000	Total R'000
CJ Kujenga	3 209	2 101	351	5 661	—	5 661
	8 055	7 676	1 308	17 039	—	17 039

Prescribed officers 2020	Salary R'000	Bonus R'000	Employee benefits R'000	Sub-total R'000	Realised gains on share options R'000	Total R'000
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

Prescribed officers 2019	Salary R'000	Bonus R'000	Employee benefits R'000	Subtotal R'000	Realised gains on share options R'000	Total R'000
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.

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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
Executive directors						
I Dutiro	316 698	—	—	(316 698)	— [#]	20/06/2021
	930 533	—	—	(930 533)	— [*]	02/02/2021
	500 000	—	—	(500 000)	— ^{**}	02/02/2021
	500 000	—	—	(500 000)	— ^{**}	02/02/2022
	—	272 080	—	(272 080)	— [#]	01/03/2022
	500 000	—	—	(500 000)	— [#]	02/03/2023
CJ Kujenga	116 568	—	—	—	116 568 [*]	20/06/2021
	241 000	—	—	—	241 000 [#]	02/02/2021
	—	125 182	—	—	125 182 [#]	01/03/2022
Prescribed officers						
R de Grooth	35 000	—	—	—	35 000 [#]	01/03/2020
	68 671	—	—	—	68 671 [#]	20/06/2021
	—	76 135	—	—	76 135 [#]	01/03/2022
K Vittee	139 650	—	—	—	139 650 [#]	01/03/2020
	74 132	—	—	—	74 132 [#]	20/06/2021
	—	62 262	—	—	62 262 [#]	01/03/2022
H Weyers	36 478	—	—	—	36 478 [#]	20/06/2021
	—	20 114	—	—	20 114 [#]	01/03/2022
T Fowler	—	64 779	—	—	64 779 [#]	20/06/2021
	—	52 751	—	—	52 751 [#]	01/03/2022
U Fear	—	48 899	—	—	48 899 [#]	01/03/2022

[#] Performance shares.

^{*} Sign-on shares.

^{**} Share appreciation rights (SARs). Vesting in three equal tranches 2021; 2022; 2023. 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

2020 Non-executive directors	Directors' fees R'000
GT Serobe	927
P Mnganga	361
GP Dinga	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
	6 542

2019 Non-executive directors	Directors' fees R'000
GT Serobe	1 071
P Mnganga	203
GP Dinga	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
	5 113

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
Directors' names						
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
Alternate directors						
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
Less double counting for Value Capital Partners (VCP)		(56 886 512)	(56 886 512)	—	(50 711 138)	(50 711 138)
	6 330	31 045 876	31 052 206	87 628	25 403 569	25 491 197

* Interest held through VCP.

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
Ordinary shares		
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 Dingaon 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
Financial assets		
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
Financial liabilities		
Amortised cost (excluding bank overdraft)	1 743 386	1 775 987
Lease liabilities	497 479	—
Bank overdraft	182	227
The following table details the Group's remaining contractual maturity for its financial liabilities:		
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
Total	—	750 944	1 071 370	220 150	474 506	2 516 970

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

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34. Operating lease arrangements

Accounting policy

The Group has the following short-term and low value lease commitments:

	2020 R'000	2019 R'000
The Group as lessee		
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
	Shorter than 12 months	
Average lease terms (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.

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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
Sishaye 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 analysis

Adcorp Holdings Limited

Analysis of ordinary shareholders as at 29 February 2020

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	1 813	73.58	269 906	0.25
1 001 – 10 000	316	12.82	1 054 379	0.96
10 001 – 100 000	217	8.81	7 947 031	7.23
100 001 – 1 000 000	88	3.57	24 772 645	22.53
Over 1 000 000	30	1.22	75 910 714	69.04
Total	2 464	100.00	109 954 675	100.00
Distribution of shareholders				
Assurance Companies	23	0.93	2 450 006	2.23
Close Corporations	16	0.65	161 188	0.15
Collective Investment Schemes	91	3.69	38 734 527	35.23
Control Accounts	1	0.04	108	0.00
Custodians	9	0.37	35 952	0.03
Foundations and Charitable Funds	25	1.01	575 716	0.52
Hedge Funds	3	0.12	18 521 738	16.84
Insurance Companies	6	0.24	364 459	0.33
Investment Partnerships	10	0.41	2 094 726	1.91
Managed Funds	18	0.73	1 670 741	1.52
Medical Aid Funds	10	0.41	499 685	0.45
Organs of State	4	0.16	3 044 685	2.77
Private Companies	25	1.01	683 608	0.62
Public Companies	1	0.04	7	0.00
Public Entities	2	0.08	84 824	0.08
Retail Shareholders	1 911	77.56	1 950 713	1.77
Retirement Benefit Funds	185	7.51	35 312 425	32.12
Scrip Lending	3	0.12	1 121 650	1.02
Sovereign Funds	2	0.08	52 041	0.05
Stockbrokers and Nominees	17	0.69	1 074 550	0.98
Treasury	1	0.04	556 605	0.51
Trusts	91	3.69	964 131	0.88
Unclaimed Scrip	10	0.41	590	0.00
Total	2 464	100.00	109 954 675	100.00

Shareholder type

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

Shareholder analysis continued

	Number of shares	% of issued capital
Fund managers with a holding greater than 5% of the issued shares		
Value Capital Partners	26 549 156	24.15
Allan Gray	20 577 508	18.71
Kagiso Asset Management	17 609 351	16.02
PSG Asset Management	9 464 780	8.61
Total	74 200 795	67.48
Beneficial shareholders with a holding greater than 5% of the issued shares		
H4 Collective Investments	17 842 621	16.23
Allan Gray	9 589 353	8.72
PSG	9 464 780	8.61
Sentinel Mining Industry Retirement Funds	6 361 816	5.79
Total	43 258 570	39.34

Total number of shareholdings **2 464**

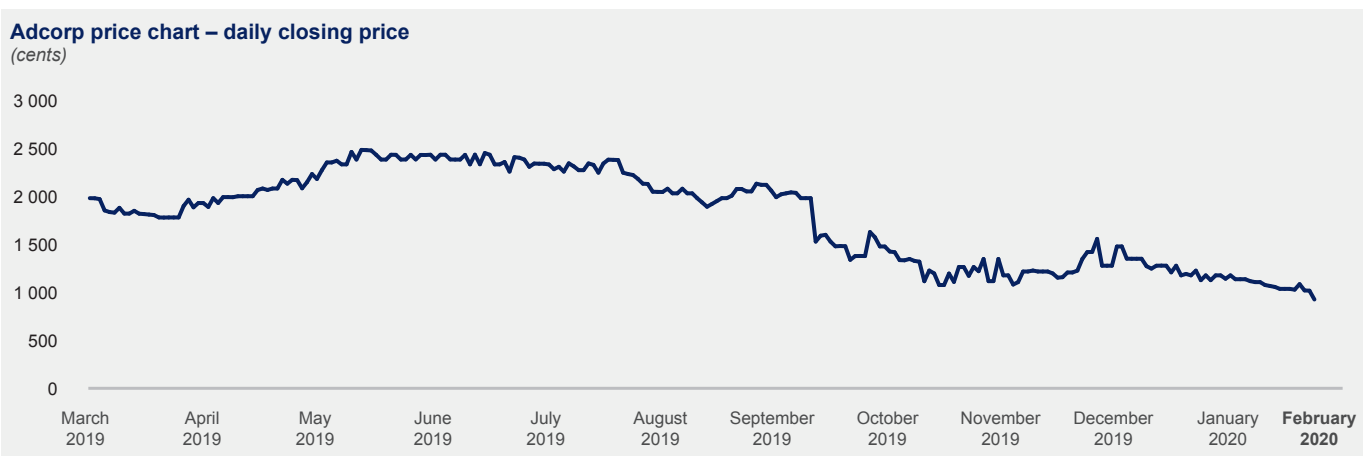
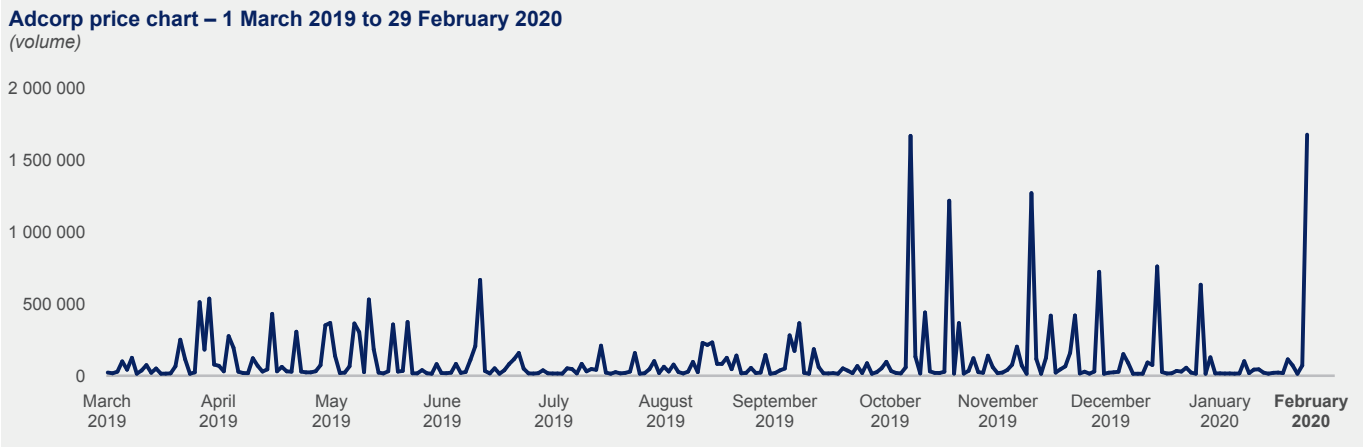
Total number of shares in issue **109 954 675**

Share price performance

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

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

Shareholder analysis continued



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