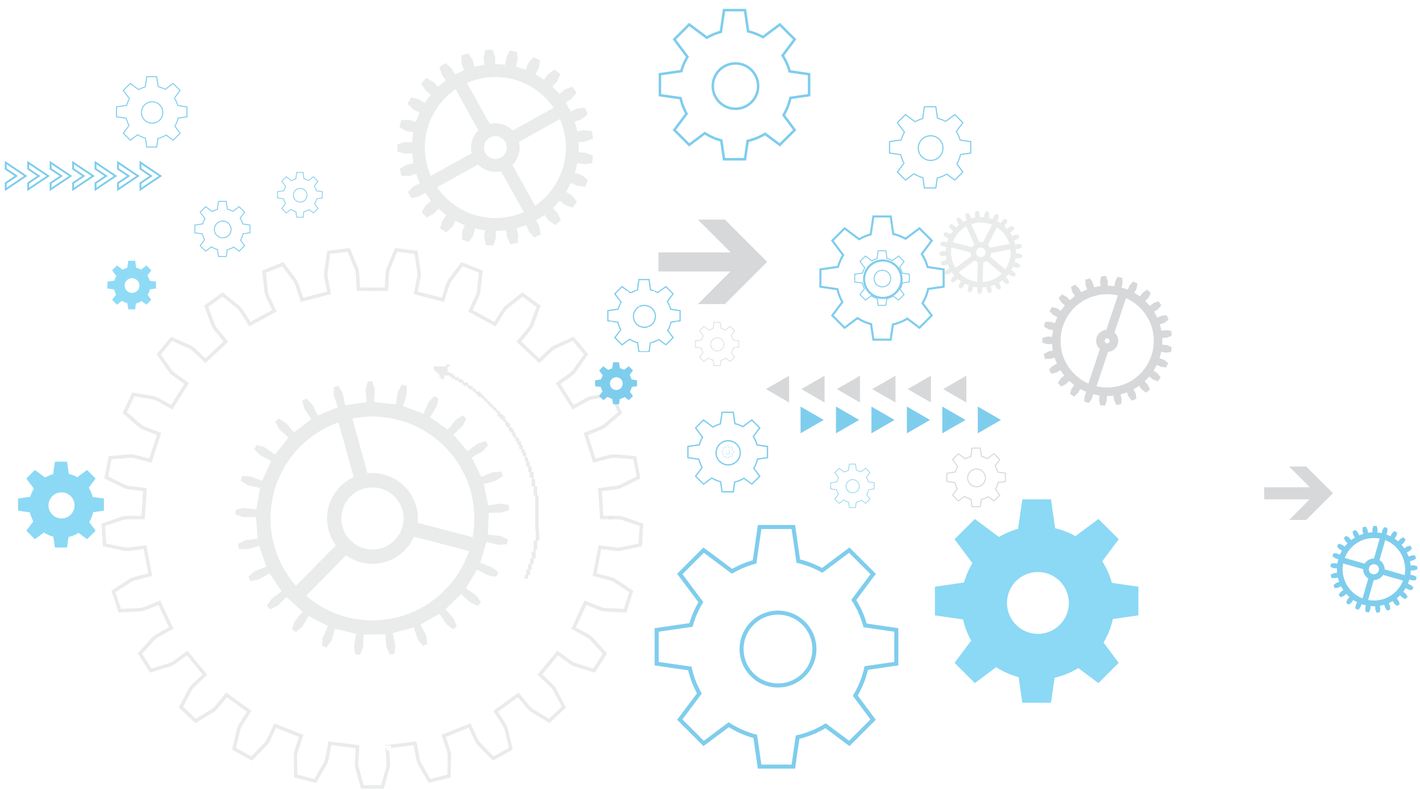
adapt IT



Unaudited condensed consolidated

INTERIM GROUP RESULTS

for the six months ended 31 December

2019

FINANCIAL **HIGHLIGHTS**

Results achievement, including IFRS 16, compared to prior year (restated)

▲ **10%** REVENUE

▲ **22%** EBITDA

▼ **35%** HEADLINE EARNINGS PER SHARE

▼ **19%** NORMALISED HEADLINE EARNINGS PER SHARE

Results achievement, excluding IFRS 16, compared to prior year (restated) representing trading performance

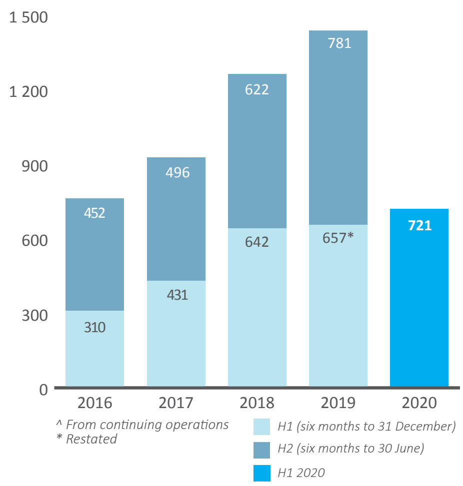
▲ **10%** REVENUE

0% EBITDA

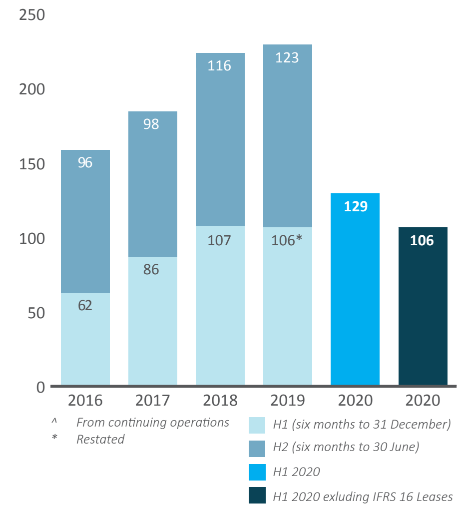
▼ **23%** HEADLINE EARNINGS PER SHARE

▼ **10%** NORMALISED HEADLINE EARNINGS PER SHARE

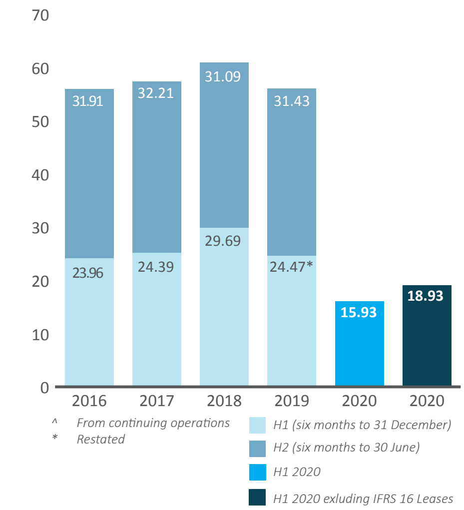
Revenue^ (R'm)



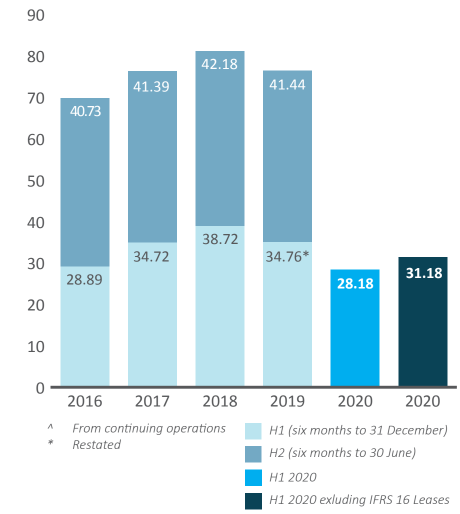
EBITDA^ (R'm)



HEPS^ (cents)



Normalised HEPS^ (cents)



BUSINESS **OVERVIEW**

Adapt IT Holdings Limited (Adapt IT) is a Johannesburg Stock Exchange (JSE) listed entity that provides leading specialised software and digitally-led business solutions that assist clients across targeted industries to Achieve more by improving their customer experience, core business operations, business administration, enterprise resource planning and public service delivery.

The organisation has deep sector knowledge and experience predominantly in the education, manufacturing, financial services, energy, communications and hospitality industries.

Adapt IT serves over 10 000 global customers, with headquarters in Johannesburg, South Africa, and regional offices in Durban and Cape Town. To service international customers, Adapt IT focuses on the Pan African market, through a presence in Mauritius, Botswana, Kenya and Nigeria, as well as on the Asia Pacific market, where the group has a presence in Australia, New Zealand and Singapore. Through its presence in Ireland, Adapt IT is able to service customers in Europe.

STRATEGIC **INTENT**

Adapt IT's strategy is to create sustainable long-term shareholder value by providing specialised software and digitally-led business solutions.

PROGRESS MADE

Beyond the continuous innovation and product development strategy, we continue to drive our expansion into new geographies and to build our digitally-led consulting capabilities and offerings enabling Adapt IT to enhance value and be more strategic to our more than 10 000 clients. Our strategy is focused on driving this significant opportunity, that is still to be fully realised, by increasing the scope of services and products to our existing client base. This approach, together with geographic expansion form the core drivers of our organic growth.

We continue to drive our values based culture and enhance our governance models. These initiatives together with operational improvement projects are targeting an uplift in efficiency and profit margins while reducing business risk.

REVENUE **ATTRIBUTES**

We aim to grow our business, our people and our solutions to enable our clients and investors to Achieve more.

R1.4bn
FY19 REVENUE

27%
INTERNATIONAL CONTRIBUTION TO REVENUE

60%
ANNUITY REVENUE

0.7x
CONTINUED CASH CONVERSION RATIO

BUSINESS **PERFORMANCE**

Adapt IT has deep sector knowledge and experience which enables the group to provide high value-add, specialised systems, digital solutions and advisory services across six client sectors. Performance is driven and reported on by these six segments namely: Education, Manufacturing, Financial Services, Energy, Communications and Hospitality.

SECTOR OVERVIEW

Education

The division's in-depth understanding of the challenges faced by the education sector enables it to design, develop, implement and maintain a range of education software products and services.

Manufacturing

The division is a provider of specialised software products for sugar producers, security providers, power stations, mines and other heavy industry. The software products are serviced by subject matter experts in the industries in which we operate.

Financial Services

For over 25 years, this segment specialised in the design, development and deployment of software solutions for financial professionals and continues to build on this specialised skill set.

Energy

The division has deep sector expertise in providing niche solutions and services within the oil and gas industry. It has a proven track record in large scale SAP™ and supply chain solution implementations and is the lead terminal automation software provider and implementer in Africa.

Communications

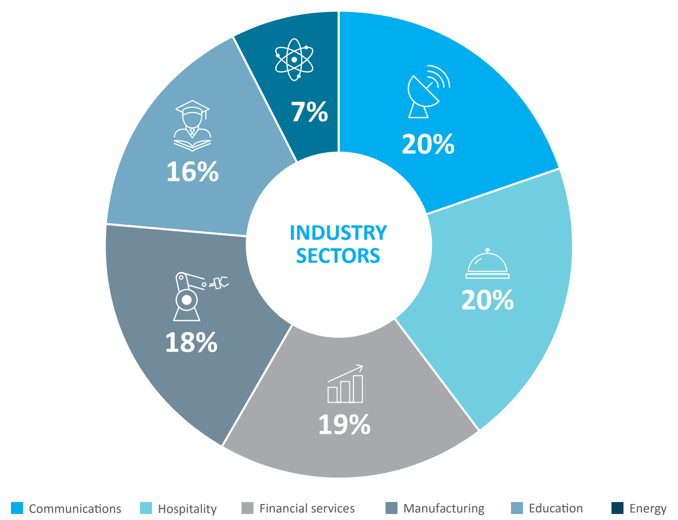
The division has international expertise in telecommunication expense management, customer experience, self-service/self-care and advanced telecoms analytics. It offers solutions and support to tier 1 mobile network operators.

Hospitality

The division has 21 years of experience in the hospitality, retail, and food and beverage industries. Throughout this period, it has been the market leader in bringing best of breed technology to and enabling, the hospitality sector.

REVENUE CONTRIBUTION

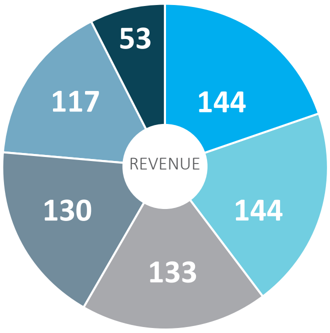
Our diversification strategy continues to provide resilience and synergistic opportunities



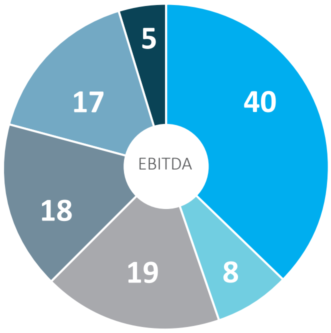
SECTOR **PERFORMANCE**

Adapt IT is positioned to take advantage of specialised technology platforms across the fastest growing market sectors. The company's focus is on improving the ability of the existing businesses to improve profitability and to develop new capabilities in their key markets. This approach has assisted in securing new customers, diversifying products and services and the move up the services value chain.

Revenue (R'm)
for the six months ended 31 December 2019



EBITDA (R'm)
for the six months ended 31 December 2019



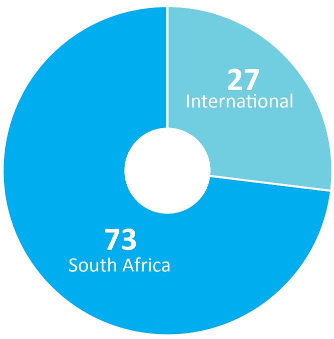
Communications | Hospitality | Financial services | Manufacturing | Education | Energy

GEOGRAPHIC **EXPANSION**

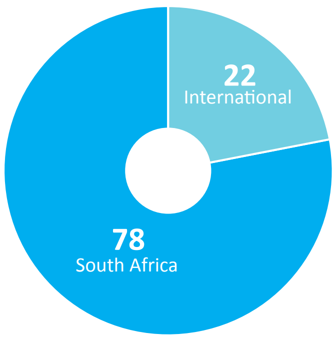
The company is well diversified across sectors and geographies, and continues to extend geographic reach across Africa and the rest of the world. Foreign markets represent 27% of revenue with software and services delivered to 32 African countries. This expansion is a key factor in diversifying market risk and growing hard currency revenue streams.

While most of the group's revenue is generated from South Africa, the outlook is to continue to diversify the business into the rest of Africa and global markets.

Geographic Revenue (%)
31 December 2019



Geographic Revenue (%)
31 December 2018



FINANCIAL **REVIEW**

ADOPTION OF NEW IFRS 16 LEASES STANDARD

Adapt IT has adopted the new IFRS 16 leases standard in the current reporting period effective 1 July 2019. In relation to those leases under IFRS 16, the group has recognised depreciation and interest costs instead of an operating lease expense. The group has applied IFRS 16 using the modified retrospective approach, consequently comparative information has not been restated. The impact of the adoption of IFRS 16 is set out in note 2 on page 11. For comparative purposes, the financial review is also presented on a basis excluding IFRS 16.

FINANCIAL PERFORMANCE

Revenue for the six months ended 31 December 2019 increased by 10% to R721 million (2018: R657 million *[restated]). Organic growth declined by 1% on the comparative period, due to ongoing poor trading conditions in South Africa, which remains Adapt IT's primary market. Project based revenue is suffering longer lead times to realise. Acquisitive growth was 11% comprising the results of Strive Software for two months and, Conor Solutions and Wisenet for six months respectively.

Annuity revenue is healthy at 60% and represents an increase on the previous reporting period (2018: 58%) with the five-year compound annual growth rate for revenue at 18%.

Geographic diversification of revenue has improved from the strengthened Pan African footprint and strategic acquisitions. Revenue from Pan Africa increased to 16% (2018: 14%) and Asia Pacific to 8% (2018: 6%), resulting in an overall improvement in international revenue contribution of 27% (2018: 22%).

Earnings before interest, tax, depreciation and amortisation (EBITDA) (before the impact of IFRS 16) was flat compared to the previous corresponding period at R106 million. Once-off impacts on earnings in the current period included a negative foreign exchange movement of R1,2 million and a net increase in loss allowances of R3,6 million pursuant to the adoption of IFRS 9.

The interest expense on borrowings increased by R10,4 million to R25 million, with net interest-bearing borrowings increasing to R464 million for the period (2018: R309 million). The borrowings were used to fund working capital, the share buyback programme and acquisitions concluded during the 2019 financial year, which were funded exclusively through cash. We also incurred once-off capital expenses of R44 million for software hosting licenses in the hospitality segment (lasting for an average of five years).

Earnings per share (EPS) for the six months to 31 December 2019 declined by 22% to 19,18 cents from 24,48 cents*, Headline earnings per share (HEPS) declined by 23% to 18,93 cents from 24,47 cents* and Normalised HEPS declined by 10% at 31,18 cents from 34,76 cents* as reconciled in note 6 on page 16. This is largely due to the operational performance and the increase in finance costs, as mentioned above.

The group provides specialised software and digitally-led business solutions to the Education, Manufacturing, Financial Services, Energy, Communications and Hospitality sectors. The poor trading conditions in South Africa has affected the performance of some divisions, most notably the segments with revenue concentrated in South African markets. Segment contribution to revenue was as follows:

- The Education division delivered an increase in revenue of 24% inclusive of the acquisitive contribution from Wisenet and Strive Software, contributing 16% to total revenue;
- The Manufacturing division revenue declined by 7% compared to the previous corresponding period due to delays experienced in projects, contributing 18% to total revenue;
- The Financial Services division achieved good revenue growth of 12%, contributing 19% to total revenue;
- The Energy division experienced a decrease in revenue of 18% while the stronger sales pipeline is still being converted, contributing 7% to total revenue;
- The Communications division grew 66% inclusive of the acquisitive contribution from the Conor Solutions, contributing 20% to total revenue; and
- The Hospitality division declined by 6% in line with the market trend and contributed 20% of total revenue.

CAPITAL STRUCTURE

No further shares were repurchased in the period and treasury shares amount to 10% of issued shares.

Net gearing is 66%, resulting from a planned capital raise that did not proceed due to the decline in the share price, and focus remains on reducing this to be closer aligned to the preferred net gearing ratio of 50%. The Board has decided not to declare a dividend, whilst a review of the company's capital structure is underway.

Cash generated from operations for the six month period was R51 million (2018: R54 million), with the average debtors days being70 days.

CONVERSION OF SHARE CAPITAL TO NO PAR VALUE SHARES

The authorised share capital has been amended from 200 000 000 ordinary par value shares of 0,01 cents each to 300 000 000 ordinary no par value shares of 0,01 cents each, in line with the new consolidated Memorandum of Incorporation (MOI), as approved by shareholders at the Annual General Meeting held on 22 November 2019. As a result of this amendment, the issued share capital of 152 513 154 ordinary shares of 0,01 cents each and share premium of R248 million as at 30 June 2019 was converted and disclosed as stated capital of R248 million as at 31 December 2019.

RESTATEMENT

Prior year comparatives for the six-months ended 31 December 2018 have been restated, consistent with the 30 June 2018 restatement related to revenue recognition and the expected credit loss provision. The components of the restatement are set out in note 13 on page 22. The reduction in revenue amounted to a net R10 million and the reduction to profit after tax was R8 million.

The commentary in this report is therefore presented against the restated 31 December 2018 results. All restated figures are indicated with an asterisk (*).

EVENTS AFTER THE REPORTING DATE

No matters occurred between the reporting date and the date of approval of the interim financial statements which would have a material effect on these financial statements.

OUTLOOK

The South African market remains challenging, however, Adapt IT continues to focus on leveraging its underlying diversification to offer more value to the current client base more effectively, focusing on sales in a cohesive manner, driving efficiencies and carefully expanding on the Pan Africa and Asia Pacific strategy.

BOARD

In the notice of the 20th annual general meeting, distributed to Shareholders on 14 October 2019, Shareholders were advised that Ms B Ntuli, an independent non-executive director, who was retiring by rotation, had not offered herself for re-election and accordingly retired from the board on 22 November 2019. There were no other changes to the directorate in the period under review.

APPRECIATION

We thank our customers, business partners and service providers for their continued support and members of the board of directors and Adapt IT group employees for their dedication, which underpins our success.

For and on behalf of the board

Craig Chambers
Independent Non-Executive Chairman

Sbu Shabalala
Chief Executive Officer

Nombali Mbambo
Chief Financial Officer

24 February 2020

CONDENSED CONSOLIDATED STATEMENT OF **PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

		Notes	**Unaudited Six months ended 31 December 2019 R'000**	Unaudited Six months ended 31 December 2018* R'000	Unaudited year-ended 30 June 2019# R'000	Period-on-period change %
Revenue		3	**721 249**	656 793	1 438 138	10
Cost of sales			**(318 019)**	(260 379)	(645 556)	22
Gross profit			**403 230**	396 414	792 582	2
Operating expenses			**(274 268)**	(290 495)	(564 042)	(6)
Earnings before interest, tax, depreciation and amortisation (EBITDA)			**128 962**	105 919	228 540	22
Depreciation and amortisation			**(26 892)**	(12 555)	(26 636)	114
Amortisation of intangible assets acquired			**(20 468)**	(17 999)	(38 954)	14
Profit from operations			**81 602**	75 365	162 950	8
Finance income		4	**621**	1 378	3 034	(55)
Finance costs		5	**(42 946)**	(17 055)	(42 830)	152
Profit before taxation			**39 277**	59 688	123 154	(34)
Income tax expense			**(17 174)**	(21 723)	(48 808)	(21)
Profit for the period			**22 103**	37 965	74 346	(42)
Attributable to:						
Equity holders of the parent			**22 207**	36 945	73 292	(40)
Non-controlling interests			**(104)**	1 020	1 054	–
Other Comprehensive Income						
Items that may be reclassified subsequently to profit and loss			**2 261**	926	(1 913)	
Exchange differences arising from translation of foreign operations			**2 261**	926	(1 913)	
Total comprehensive income			**24 364**	38 891	72 433	(37)
Attributable to:						
Equity holders of the parent			**24 468**	37 871	71 379	(35)
Non-controlling interests			**(104)**	1 020	1 054	
Basic earnings per share	(cents)	6	**16,18**	24,48	49,95	(34)
Basic diluted earnings per share	(cents)	6	**16,18**	24,48	49,95	(34)
Dividend per share	(cents)		**–**	17,10	17,10	(100)

The group has initially applied IFRS 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See note 2.

* *See note 13.1 for details regarding the restatement for measurement period adjustment and note 13.2 for details about restatement as a result of prior period errors.*

See note 13.4 for details regarding the restatement for measurement period adjustment. The measurement period results have not yet been audited and will only be audited at 30 June 2020 year-end.

CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018* R'000	Unaudited year-ended 30 June 2019# R'000
ASSETS				
Non-current assets		**1 368 040**	1 064 074	1 165 017
Property and equipment		**106 192**	107 807	110 433
Intangible assets		**268 372**	254 384	290 468
Right-of-use assets		**237 453**	–	–
Goodwill	7	**706 975**	645 447	707 168
Finance lease receivables		**20 579**	23 821	20 200
Loans receivable		**5 750**	1 250	6 000
Deferred taxation asset		**22 719**	31 365	30 748
Current assets		**467 818**	452 202	464 251
Inventories		**34 742**	23 383	26 418
Trade and other receivables		**241 681**	201 740	311 536
Contract assets	8	**43 581**	25 718	24 224
Current tax receivable		**52 216**	12 887	22 538
Finance lease receivables		**14 031**	9 416	12 804
Loans receivable		**500**	500	500
Cash and cash equivalents		**73 241**	162 996	58 405
Assets classified as held for sale		**7 826**	15 562	7 826
Total assets		**1 835 858**	1 516 276	1 629 268
EQUITY AND LIABILITIES				
Equity				
Stated capital		**248 139**	–	–
Share capital		**–**	16	15
Share premium		**–**	321 591	248 124
Treasury shares		**(2)**	(1)	(2)
Equity compensation reserve		**17 988**	21 266	17 988
Business combination reserves		**(15 664)**	(15 217)	(15 664)
Foreign currency translation reserve		**5 367**	5 945	3 106
Retained earnings		**409 585**	387 326	423 672
Attributable to equity holders of the parent		**665 413**	720 926	677 239
Non-controlling interests		**(325)**	(255)	(221)
Total equity		**665 088**	720 671	677 018
Non-current liabilities		**848 562**	538 860	99 630
Interest-bearing borrowings	9	**500 040**	459 911	2 987
Financial liabilities		**24 420**	18 837	40 750
Lease liability		**273 716**	–	–
Finance lease liabilities	10	**625**	1 209	878
Deferred taxation liability		**49 761**	58 903	55 015
Current liabilities		**322 208**	256 745	852 620
Trade and other payables		**142 730**	151 932	158 002
Contract liabilities	11	**52 009**	41 634	107 744
Leave pay and provisions		**26 100**	26 684	59 763
Current tax payable		**9 038**	6 025	11 122
Current portion of interest-bearing borrowings	9	**36 369**	9 262	498 005
Financial liabilities		**34 817**	19 892	16 867
Current portion of lease liability		**20 575**	–	–
Finance lease liabilities	10	**570**	1 316	1 117
Total equity and liabilities		**1 835 858**	1 516 276	1 629 268

CONDENSED CONSOLIDATED
STATEMENT OF FINANCIAL POSITION CONTINUED

		Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018* R'000	Unaudited year-ended 30 June 2019# R'000
Net asset value per share**	(cents)	**483,74**	477,54	493,23
Tangible net asset value per share**	(cents)	**(102,75)**	(57,12)	(130,39)
Liquidity ratio	(times)	**1,45**	1,76	0,54
Solvency ratio	(times)	**1,57**	1,91	1,71
Market price per share				
Close	(cents)	**370**	590	568
High	(cents)	**632**	900	579
Low	(cents)	**330**	588	550
Capital expenditure for the period	(R'000)	**12 852**	23 783	86 930
Capital commitments	(R'000)	**22 585**	10 386	44 504

* *See note 13.1 for details regarding the restatement for measurement period adjustment and note 13.2 for details about restatement as a result of prior period errors.*

See note 13.4 for details regarding the restatement for measurement period adjustment. The measurement period results have not yet been audited and will only be audited at 30 June 2020 year-end.

*** Based on issued shares, net of treasury shares, held at period-end.*

CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent			
Unaudited	**Share capital R'000**	**Treasury shares R'000**	**Share premium R'000**	**Stated capital R'000**
Balance at 30 June 2018 (audited)	16	(1)	340 278	–
Total comprehensive income for the period	–	–	–	–
Profit for the period	–	–	–	–
Other comprehensive income for the period	–	–	–	–
Share-based expense	–	–	–	–
Repurchase of shares	–	–	(18 687)	–
Acquisition of minority interest	–	–	–	–
Dividend paid	–	–	–	–
Balance at 31 December 2018 (restated*)	16	(1)	321 591	–
Balance at 30 June 2019 (unaudited#)	**15**	**(2)**	**248 124**	**–**
Transitional adjustment – Implementation of IFRS 16 (refer note 2)	**–**	**–**	**–**	**–**
Balance at 1 July 2019	**15**	**(2)**	**248 124**	**–**
Total comprehensive income for the period	**–**	**–**	**–**	**–**
Profit for the period	**–**	**–**	**–**	**–**
Other comprehensive income for the period	**–**	**–**	**–**	**–**
Share capital conversion to no par value shares	**(15)**		**(248 124)**	**248 139**
Balance at 31 December 2019	**–**	**(2)**	**–**	**248 139**

* *See note 13.1 for details regarding the restatement for measurement period adjustment and note 13.2 for details about restatement as a result of prior period errors.*

\# *See note 13.4 for details regarding the restatement for measurement period adjustment. The measurement period results have not yet been audited and will only be audited at 30 June 2020 year-end.*

Attributable to equity holders of the parent						
Equity compensation reserve R'000	Business combination reserves R'000	Foreign currency translation reserve R'000	Retained earnings R'000	Attributable to equity holders of the parent R'000	Non-controlling interests R'000	Total R'000
19 221	–	5 019	376 197	740 730	2 276	743 006
–	–	926	36 945	37 871	1 020	38 891
–	–	–	36 945	36 945	1 020	37 965
–	–	926	–	926	–	926
2 045	–	–	–	2 045	–	2 045
–	–	–	–	(18 687)	–	(18 687)
–	(15 217)	–	–	(15 217)	(461)	(15 678)
–	–	–	(25 816)	(25 816)	(3 090)	(28 906)
21 266	(15 217)	5 945	387 326	720 926	(255)	720 671
17 988	**(15 664)**	**3 106**	**423 672**	**677 239**	**(221)**	**677 018**
–	**–**	**–**	**(36 294)**	**(36 294)**	**–**	**(36 294)**
17 988	**(15 664)**	**3 106**	**387 378**	**640 945**	**(221)**	**640 724**
–	**–**	**2 261**	**22 207**	**24 468**	**(104)**	**24 364**
–	**–**	**–**	**22 207**	**22 207**	**(104)**	**22 103**
–	**–**	**2 261**	**–**	**2 261**	**–**	**2 261**
–	**–**	**–**	**–**	**–**	**–**	**–**
17 988	**(15 664)**	**5 367**	**409 585**	**665 413**	**(325)**	**665 088**

CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS

	Notes	Unaudited Six months ended 31 December 2019 R'000	Unaudited Six months ended 31 December 2018* R'000	Audited year-ended 30 June 2019 R'000
OPERATING ACTIVITIES				
Operating cash flow	14	**129 004**	100 841	232 199
Working capital outflow	15	**(54 894)**	(46 784)	(53 512)
Cash generated from operations		**74 110**	54 057	178 687
Finance income		**621**	1 378	3 034
Finance costs		**(26 150)**	(17 866)	(41 669)
Dividends paid		**–**	(28 906)	(28 906)
Taxation paid	16	**(32 207)**	(34 221)	(68 838)
Net cash flow generated from/(utilised in) operating activities		**16 374**	(25 558)	42 308
INVESTING ACTIVITIES				
Property and equipment acquired		**(6 978)**	(21 018)	(35 021)
Intangible assets acquired and developed		**(5 874)**	(2 765)	(51 909)
Proceeds on disposal of property and equipment		**632**	–	290
Proceeds from loans receivable		**250**	17 635	17 723
Settlement of contingent purchase consideration		**–**	(33 635)	(33 635)
Net cash outflow on acquisition of subsidiaries		**–**	(79 057)	(130 641)
Loan advanced		**–**	–	(5 000)
Net cash flows utilised in investment activities		**(11 970)**	(118 840)	(238 193)
FINANCING ACTIVITIES				
Proceeds from borrowings		**133 605**	625 236	797 937
Repayment of borrowings		**(98 926)**	(370 538)	(507 541)
Payment of lease liabilities		**(23 534)**	–	–
Transaction costs related to borrowings		**–**	–	(6 291)
Repayment from finance lease liabilities		**(800)**	(461)	(1 313)
Settlement of acquired contingent purchase consideration relating to subsequent fair value changes		**–**	(2 389)	(2 389)
Treasury shares purchased and transaction costs		**–**	(22 297)	(95 766)
Net cash outflow on acquisition of minority interest		**–**	(12 519)	(16 126)
Net cash flows from financing activities		**10 345**	217 032	168 511
Net increase/(decrease) in cash resources		**14 749**	72 634	(27 374)
Exchange differences on translation		**87**	3 784	(799)
Cash and cash equivalents at beginning of period		**58 405**	86 578	86 578
Cash and cash equivalents at end of period		**73 241**	162 996	58 405

The group has initially applied IFRS 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See note 2.

** See note 13.1 for details regarding the restatement for measurement period adjustment and note 13.2 for details about restatement as a result of prior period errors.*

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS**

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim results for the six months ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS), the requirements of the JSE Limited Listings Requirements for interim reports, the requirements of the Companies Act applicable to condensed financial statements, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and contain information required by IAS 34 Interim Financial Reporting. The accounting policies applied in preparation of these condensed consolidated interim results are consistent with those applied in the previous annual financial statements except for the adoption of IFRS 16: Leases.

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements related to lessee accounting under IFRS 16, which are described in note 2.

The report was prepared under the supervision of the Chief Financial Officer, Ms Nombali Mbambo CA(SA), and has not been audited by the group's external auditors.

The unaudited condensed consolidated interim results were approved by the board of directors on 21 February 2020.

2. CHANGE IN SIGNIFICANT ACCOUNTING POLICY

The changes in accounting policies are also expected to be reflected in the group's consolidated financial statements for the year ending 30 June 2020.

The group has initially adopted IFRS 16 Leases from 1 July 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the group's financial statements. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

2.1 DEFINITION OF A LEASE

The group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative standalone prices.

2.2 AS A LESSEE

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The group determined the low value exemption to be R75 000. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The group presents right-of-use assets as a separate class of asset.

The group presents lease liabilities in as a separate class of liabilities in the statement of financial position.

i. Significant accounting policies

The group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the 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 using the group's incremental borrowing rate. The group uses the relevant incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

2. CHANGE IN SIGNIFICANT ACCOUNTING POLICY CONTINUED

i. **Significant accounting policies** continued

be exercised or a termination option is reasonably certain not to be exercised.

The group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options. The assessment of whether the group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. **Transition**

Previously, the group classified property leases as operating leases under IAS 17. The leases typically run for a period of between three and ten years. Some leases include an option to renew the lease for an additional five years after the end of the non-cancellable period. Some leases provide for additional rent payments that are based on changes in local price indices.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the relevant incremental borrowing rate as at 1 July 2019. The incremental borrowing rate ranges between 6,17% and 10,26%.

Right-of-use assets are measured at:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term
- Reliance on previous onerous contract assessment under IAS 37;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

2.3 IMPACT ON TRANSITION

The table below reflects information relating to the impact of the adoption of IFRS 16 using the modified retrospective approach:

	Unaudited 1 July 2019 R'000
ASSETS	
Non-current assets	
Right-of-use assets	251 004
Deferred taxation asset	13 940
Equity	
Retained earnings	(36 294)
Non-current liabilities	
Lease liability	285 641
Current liabilities	
Current portion of lease liability	16 908
Lease smoothing liabilities reserved	(1 311)

2. CHANGE IN SIGNIFICANT ACCOUNTING POLICY CONTINUED

2.4 ONGOING IMPACT

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the group recognised R237,4 million of right-of-use assets and R294,3 million of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS 16, the group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 31 December 2019, the group recognised R13,6 million of depreciation charges and R15,2 million of interest costs from these leases.

For the impact of IFRS 16 on segment information and EBITDA, see note 12.

Reconciliation of adjusted IFRS 16		31 December 2019 As disclosed R'000	31 December 2019 IFRS 16 impact R'000	**31 December 2019 Excluding IFRS 16 R'000**	31 December 2018 As disclosed R'000	Excluding IFRS16 Period-on-period change %
Revenue		721 249	–	**721 249**	656 793	10
EBITDA		128 962	(23 038)	**105 924**	105 919	0
Depreciation and amortisation		(26 892)	13 591	**(13 301)**	(12 555)	6
Amortisation of intangible assets acquired		(20 468)	–	**(20 468)**	(17 999)	14
Profit from operations		81 602	(9 447)	**72 155**	75 365	(4)
Finance income		621	–	**621**	1 378	(55)
Finance costs		(42 946)	15 207	**(27 739)**	(17 055)	63
Profit before taxation		39 277	5 760	**45 037**	59 688	(25)
Income tax expense		(17 174)	(1 640)	**(18 814)**	(21 723)	(13)
Profit for the period		22 103	4 120	**26 223**	37 965	(31)
Basic earnings per share	(cents)	16,18	3,00	**19,18**	24,48	(22)
Headline earnings per share	(cents)	15,93	3,00	**18,93**	24,47	(23)
Normalised headline earnings per share	(cents)	28,18	3,00	**31,18**	34,76	(10)

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The group derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major product lines.

Unaudited 31 December 2019 Product lines:	**Education R'000**	**Manufac-turing R'000**	**Financial Services R'000**	**Energy R'000**	**Communi-cations R'000**	**Hospitality R'000**	**Total R'000**
Licences							
– at a point in time	2 638	7 397	120 696	1 350	4 007	8 466	144 554
– over time	3 886	20 152	–	–	12 668	–	36 706
Subscriptions							
– over time	19 515	779	–	1 728	75 921	30 593	128 536
Installation, development and implementation							
– at a point in time	–	–	–	–	(31)	13 577	13 546
– over time	8 957	42 112	–	19 542	31 769	–	102 380
Maintenance and support							
– over time	69 505	52 383	–	7 211	19 916	53 324	202 339
Services							
– at a point in time	8 903	6 332	9 597	22 350	–	–	47 182
– over time	507	–	–	–	–	–	507
Hardware							
– at a point in time	7	107	–	82	93	29 018	29 307
Other							
– at a point in time	3 317	377	2 706	248	–	1 688	8 336
– over time	135	–	–	–	–	–	135
Total revenue from contracts with customers	117 370	129 639	132 999	52 511	144 343	136 666	713 528
Non-IFRS 15 revenue							
Interest received on finance leases	–	–	–	–	–	7 721	7 721
Total revenue	117 370	129 639	132 999	52 511	144 343	144 387	721 249

3. REVENUE FROM CONTRACTS WITH CUSTOMERS CONTINUED

Unaudited 31 December 2018* Product lines:	Education R'000	Manufacturing R'000	Financial Services R'000	Energy R'000	Communications R'000	Hospitality R'000	Total R'000
Licences							
– at a point in time	1 211	15 953	106 748	5 771	–	8 858	138 541
– over time	6 493	18 300	–	–	10 635	–	35 428
Subscriptions							
– over time	–	673	–	359	62 359	28 517	91 908
Installation, development and implementation							
– at a point in time	–	–	–	–	86	21 185	21 271
– over time	9 837	43 230	–	22 785	9 528	–	85 380
Maintenance and support							
– over time	62 841	49 833	–	8 767	4 420	49 888	175 749
Services							
– at a point in time	12 873	10 693	9 545	25 625	–	–	58 736
– over time	37	–	–	–	–	–	37
Hardware							
– at a point in time	411	3	–	124	21	35 881	36 440
Other							
– at a point in time	479	51	2 139	970	109	1 878	5 626
– over time	621	–	–	–	–	–	621
Total revenue from contracts with customers	94 803	138 736	118 432	64 401	87 158	146 207	649 737
Non-IFRS 15 revenue							
Interest received on finance leases	–	–	–	–	–	7 056	7 056
Total revenue	94 803	138 736	118 432	64 401	87 158	153 263	656 793

* *See note 13.2 for details about restatement as a result of prior period errors.*

4. FINANCE INCOME

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018* R'000	Audited 30 June 2019 R'000
Other interest received	**39**	592	864
Interest on cash and cash equivalents	**582**	786	2 170
Total finance income	**621**	1 378	3 034

* *See note 13.2 for details about restatement as a result of prior period errors.*

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018 R'000	Audited 30 June 2019 R'000
5. FINANCE COSTS			
Borrowings	**25 302**	14 938	38 274
Lease liability	**15 207**	–	–
Financial liabilities (imputed)	**1 589**	2 117	4 089
Other	**848**	–	467
Total finance cost	**42 946**	17 055	42 830

		Unaudited 31 December 2019 R'000	Unaudited 31 December 2018* R'000	Unaudited 30 June 2019# R'000
6. EARNINGS PER SHARE				
Reconciliation between earnings, headline earnings and normalised headline earnings				
Earnings attributable to equity holders of the parent		**22 207**	36 945	73 292
Adjusted for:				
– Impairment of asset held for sale		**–**	–	7 736
– (Profit)/loss on sale of property and equipment		**(466)**	(22)	952
– Scrapping of property and equipment		**–**	–	430
– Total tax effects of adjustments		**130**	–	(393)
Headline earnings		**21 871**	36 923	82 017
Adjusted for:				
Amortisation of intangible assets acquired through business combinations		**20 468**	17 999	38 954
Deferred taxation on amortisation of intangible assets acquired		**(5 252)**	(4 588)	(9 986)
Fair value adjustment to financial liability (imputed interest)		**1 589**	2 117	4 089
Gain arising on derecognition of financial liability measured at amortised cost		**–**	–	(3 262)
Normalised headline earnings		**38 676**	52 451	111 812
Number of ordinary shares in issue	(000)	**152 513**	160 540	152 513
Weighted average number of ordinary shares in issue	(000)	**137 262**	150 913	146 730
Diluted average number of ordinary shares in issue	(000)	**137 262**	150 913	146 730
Basic earnings per share	(cents)	**16,18**	24,48	49,95
Headline earnings per share	(cents)	**15,93**	24,47	55,90
Basic diluted earnings per share	(cents)	**16,18**	24,48	49,95
Diluted headline earnings per share	(cents)	**15,93**	24,47	55,90
Normalised headline earnings per share	(cents)	**28,18**	34,76	76,20

* *See note 13.1 for details regarding the restatement for measurement period adjustment and note 13.2 for details about restatement as a result of prior period errors.*

\# *See note 13.4 for details regarding the restatement for measurement period adjustment. The measurement period results have not yet been audited and will only be audited at 30 June 2020 year-end.*

7. GOODWILL

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018* R'000	Unaudited 30 June 2019# R'000
Carrying amount at beginning of period	**707 168**	598 252	598 252
Acquisition of Strive Software	**–**	7 636	7 636
Acquisition of Conor	**–**	39 579	39 579
Acquisition of Wisenet@	**–**	–	62 739
Foreign exchange adjustments	**(192)**	(20)	(1 038)
Carrying amount at end of period	**706 976**	645 447	707 168
The carrying amount of goodwill has been allocated to cash-generating units (CGUs) as follows:			
– Manufacturing	**10 408**	10 408	10 408
– HCM	**12 352**	12 352	12 352
– Energy	**95 477**	95 477	95 477
– Telecoms	**143 038**	143 038	143 038
– CQS	**187 933**	187 933	187 933
– EasyRoster	**41 701**	41 701	41 701
– Micros	**78 047**	78 047	78 047
– LGR Australia	**21 412**	22 083	21 464
– LGR South Africa	**7 193**	7 193	7 193
– Strive Software	**7 636**	7 636	7 636
– Conor	**39 579**	39 579	39 579
– Wisenet Australia@	**54 793**	–	54 929
– Wisenet New Zealand@	**7 407**	–	7 411
Total	**706 976**	645 447	707 168

* *See note 13.1 for details regarding the restatement for measurement period adjustment.*

See note 13.4 for details regarding the restatement for measurement period adjustment. The measurement period results have not yet been audited and will only be audited at 30 June 2020 year-end.

@ *The acquisition of Wisenet is provisionally accounted for.*

The recoverable amount of each cash-generating unit (CGU) is determined based on a value in use calculation which uses cash flow projections based on financial forecasts approved by the directors.

The discounted cash flows cover a five-year period using a 5% (2018: 5%) growth rate, and a discount rate (weighted average cost of capital) of 16% per annum (2018: 15%) for South Africa and 10% (2018: 10%) per annum for Australia.

The terminal growth rate used is 4,6% (2018: 4,6%) for South Africa and 2,2% (2018: 2,2%) for Australia.

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018* R'000	Audited 30 June 2019 R'000
8. CONTRACT ASSETS			
Education	**9 543**	9 757	12 118
Manufacturing	**14 204**	9 728	1 483
Communications	**12 586**	1 783	5 533
Energy	**8 804**	5 545	6 242
	45 137	26 813	25 376
Loss allowance	**(1 556)**	(1 095)	(1 152)
Total	**43 581**	25 718	24 224
The movement in the impairment allowance in respect of contract assets during the period was as follows:			
Carrying amount at beginning of period (calculated under IFRS 9)	**1 152**	1 853	1 853
Loss allowance on amounts due from contract assets	**404**	(758)	(701)
Closing loss allowance at the end of the period	**1 556**	1 095	1 152
The table below discloses significant changes to the contract asset balances during the period:			
Carrying amount at beginning of period (calculated under IFRS 9)	**24 224**	28 256	28 256
Charge/(release) to the income statement	**19 783**	(3 464)	(4 916)
Movement on loss allowance on amounts due from contract assets	**(404)**	758	701
Foreign exchange movement	**(22)**	168	183
Balance at end of period	**43 581**	25 718	24 224

* *See note 13.2 for details about restatement as a result of prior period errors.*

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018 R'000	Audited 30 June 2019 R'000
9. INTEREST-BEARING BORROWINGS			
Non-current borrowings	**500 040**	459 911	2 987
(1) The Standard Bank of South Africa Limited	**497 518**	452 018	–
(2) FirstRand Bank Limited	**2 522**	7 893	2 987
Current borrowings	**36 369**	9 262	498 005
(1) The Standard Bank of South Africa Limited	**34 188**	1 608	490 182
(2) FirstRand Bank Limited	**2 181**	7 654	7 823
Total	**536 409**	469 173	500 992

9. INTEREST-BEARING BORROWINGS CONTINUED

Analysis and maturity profile of interest-bearing borrowings:

(1) THE STANDARD BANK OF SOUTH AFRICA LIMITED

The borrowings terms comprise	Facility amount R'000	Date obtained	Term	Repayment	Interest terms
Facility A – term loan facility for acquisitions	**350 000**	13 December 2018	60 months	Quarterly, starting 31 December 2019	JIBAR + margin of 2,65% – 2,90%
Facility B – revolving credit facility for working capital	**405 000**	13 December 2018	36 months	12 December 2021	Prime less margin of 0,20% – 0,45%
	755 000				

The facilities are secured by cession of all insurance policies, cash and cash equivalents and trade receivables of Adapt IT Holdings Limited, Adapt IT (Pty) Ltd, CQS Confirmations (Pty) Ltd and Adapt IT Consulting (Pty) Ltd along with the shares held in Adapt IT (Pty) Ltd, CQS Confirmations (Pty) Ltd and Adapt IT Consulting (Pty) Ltd. The facilities are further secured by cession of a R755 000 000 general notarial bond over the moveable assets of Adapt IT (Pty) Ltd.

Balance at 31 December 2019	Capital outstanding R'000	Interest capitalised R'000	Total R'000	Rates	Interest rate % charge
Facility A – term loan facility for acquisitions	**136 180**	**36**	**136 216**	JIBAR +2,65% or JIBAR +2,90%	Rates ranging between 9,4420 and 9,7000
Facility B – revolving credit facility for working capital	**399 217**	**107**	**399 324**	Prime-0,2% or Prime-0.45%	Rates ranging between 9,5500 and 9,8000
	535 397	**143**	**535 540**		
Capital raising fees (amortised over term of facilities)	**(3 834)**	**–**	**(3 834)**		
Total	**531 563**	**143**	**531 706**		

(2) FIRSTRAND BANK LIMITED

Micros South Africa (Pty) Ltd has two term facilities with FirstRand Bank Limited. The one term facility matured on 7 December 2019 and the other matures on 7 December 2021. The facilities are repayable monthly and accrue interest at FirstRand Bank Limited's prime interest rate plus 0,75%.

The facilities are secured by trade receivables, cession of all the positive bank accounts and a R15 000 000 general notarial bond over the moveable assets of Micros South Africa (Pty) Ltd.

The interest rate for 2019 was 11,00% (2018: 11,00%).

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018 R'000	Audited 30 June 2019 R'000
10. FINANCE LEASE LIABILITIES			
Non-current liabilities	**625**	1 209	878
Current liabilities	**570**	1 316	1 117
Total	**1 195**	2 525	1 995

Micros South Africa (Pty) Ltd lease certain motor vehicles and equipment under finance leases. Interest rates are linked to prime at the contract date.

All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The finance leases are secured by the lessor's charge over the leased assets.

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018* R'000	Audited 30 June 2019 R'000
11. CONTRACT LIABILITIES			
Education	**12 531**	10 091	64 524
Manufacturing	**14 393**	7 620	2 399
Financial Services	**1 881**	5 676	6 113
Energy	**7 206**	1 457	1 722
Communications	**9 116**	9 214	6 142
Hospitality	**6 882**	7 576	26 844
Total	**52 009**	41 634	107 744
The table below discloses significant changes to the contract liability balances during the period:			
Carrying amount at beginning of period (calculated under IFRS 15)	**107 744**	94 554	94 554
Release to the income statement	**(55 699)**	(57 915)	(4 011)
Acquisition of subsidiaries	**–**	4 684	16 605
Foreign exchange movement	**(36)**	311	596
Balance at end of period	**52 009**	41 634	107 744

Contract liabilities relates to maintenance, software licences, software as a service (SaaS), long-term software projects in progress, ongoing upgrades and hosting pre-invoiced for future periods.

* *See note 13.2 for details about restatement as a result of prior period errors.*

12. SEGMENT ANALYSIS

The reportable segments reflect the current operating model of the group and achieve alignment with the way in which the business is managed and reported on by the group's Chief Executive Officer (the Chief Operating Decision-Maker (CODM)). Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Monthly management meetings are held to evaluate segment performance against budget and forecast. The CODM does not monitor assets and liabilities by segment.

The group's reportable segments are Education, Manufacturing, Financial Services, Energy, Communications and Hospitality.

The following tables present revenue and EBITDA information regarding the group's operating segments for the six months ended 31 December 2019 and 31 December 2018, respectively:

	Education R'000	Manu-facturing R'000	Financial Services R'000	Energy R'000	Communi-cations R'000	Hospitality R'000	Total R'000
31 December 2019							
Revenue	**117 370**	**129 639**	**132 999**	**52 511**	**144 343**	**144 387**	**721 249**
EBITDA*	**17 363**	**17 796**	**19 636**	**5 125**	**39 843**	**7 630**	**107 393**
Adjusted for:							
Depreciation and amortisation							**(13 301)**
Depreciation on right-of-use assets							**(13 591)**
Amortisation of intangible assets acquired							**(20 468)**
Transaction costs							**(1 469)**
Operating lease expenses adjustment (IFRS 16)							**23 038**
Operating profit							**81 602**
EBITDA* margin (%)	**15**	**14**	**15**	**10**	**28**	**5**	**15**
31 December 2018 (restated)^							
Revenue	94 803	138 736	118 432	64 401	87 158	153 263	656 793
EBITDA*	17 839	14 464	17 456	6 905	33 098	20 820	110 582
Adjusted for:							
Depreciation and amortisation							(12 555)
Amortisation of intangible assets acquired							(17 999)
Transaction costs							(4 663)
Operating profit							75 365
EBITDA* margin (%)	19	10	15	11	38	14	17

* *EBITDA represents operating profit before depreciation and amortisation adjusted for specific non-trading items.*

^ *See 13.3 for details about restatement as a result of prior period errors.*

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

13. RESTATEMENT

13.1 ACQUISITION DATE MEASUREMENT PERIOD ADJUSTMENT

On 31 December 2018, the group acquired the business of Conor Solutions (Pty) Ltd (Conor) (South African registered), through the acquisition of assets and assumption of liabilities.

Conor operates in the ICT sector focused on mobile technologies providing turnkey technology solutions to mobile network operators, financial institutions, enterprises, and SMMEs.

The acquisition provides the group with access to key proprietary software, customers and markets in the telecommunications space in South Africa as well as key markets in Africa including the DRC, Tanzania, Lesotho and Namibia.

In the business combination of Conor, an estimated fair value was placed on intangible assets as the purchase price allocation valuation of these assets had not been completed as at 31 December 2018.

The valuation of these assets, namely Customer Relationship and Internally Generated Software, has subsequently been finalised.

Furthermore, the fair value of other assets and liabilities acquired were also firmed up during the measurement period.

The effect on the business combination as at date of acquisition being 31 December 2018, is as follows:

	As previously reported R'000	Measurement period adjustment R'000	Restated amount R'000
Assets			
Property and equipment	1 099	–	1 099
Intangible assets	47 258	(2 458)	44 800
Deferred tax asset	–	1 643	1 643
Cash and cash equivalents	12 598	–	12 598
Total assets	60 955	(815)	60 140
Liabilities			
Deferred tax liability	13 232	(688)	12 544
Contract liabilities	–	4 662	4 662
Leave pay	1 208	–	1 208
Current tax payable	–	1 305	1 305
Total liabilities	14 440	5 279	19 719
Total identifiable net assets	46 515	(6 094)	40 421
Goodwill arising on acquisition	33 485	6 094	39 579
Fair value of total consideration	80 000	–	80 000
Cash outflow on acquisition:			
Net cash acquired with the subsidiary	12 598	–	12 598
Cash paid	(80 000)	–	(80 000)
Net cash outflow on acquisition	(67 402)	–	(67 402)

13.2 MEASUREMENT PERIOD ADJUSTMENT AND CORRECTION OF PRIOR PERIOD ERRORS TO 31 DECEMBER 2018 AS PREVIOUSLY REPORTED

LGR and Strive Software measurement period adjustments

On 1 June 2018, the group acquired the business of CDR Live Limited (Mauritius registered), the issued share capital in its wholly-owned subsidiary, LGR Analytics Inc (USA registered), and the businesses of its wholly-owned subsidiaries, LGR Telecommunications (Pty) Ltd (South African registered) and LGR Telecommunications (Pty) Ltd (Australian registered) (collectively LGR).

With effect from 1 September 2018, the group acquired control of 100% of the share capital of Strive Software International (Pty) Ltd (Strive Software). Strive Software conducts business in the private education sector, providing software, consulting and support to its clients.

In the business combination of LGR and Strive Software, an estimated fair value was placed on intangible assets as the purchase price allocation valuation of these assets had not been completed as at 31 December 2018.

The acquisition was provisionally accounted for in terms of the allowance per IFRS 3 Business Combinations.

The valuation of these assets, namely Customer Relationship and Internally Generated Software, has subsequently been finalised.

Furthermore, the fair value of other assets and liabilities acquired were also firmed up during the measurement period.

The purchase price allocation was finalised for the year ended 30 June 2019. The impact on the 31 December 2018 profit as a result of the finalisation is detailed on page 24.

Significant contract revenue recognition

As a result of the adoption of IFRS 15, a detailed analysis of revenue contracts was undertaken. The revenue recognition for a significant contract was incorrectly done for the following reasons:

- Revenue from the project was being recognised by including a contingency fee which was still subject to customer approval though a variation order;
- The subcontractor aspect of the contract was being treated as agent as opposed to principal; and
- Licence revenue was being treated as principal instead of agent.

Pre-invoicing on executory contracts

As at 31 December 2018, trade and other receivables, trade and other payables and deferred income were overstated due to pre-invoicing of certain contracts that were still executory in nature and no cash had been collected. This was due to advance/pre-invoicing by the business. This had no impact on profit.

IFRS 9 expected credit loss allowance

As a result of the adoption of IFRS 9, a detailed assessment of all financial instruments was undertaken. The group re-assessed the loss allowance for expected credit losses.

The impact on profit is presented on page 24.

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

13. RESTATEMENT CONTINUED

13.2 MEASUREMENT PERIOD ADJUSTMENT AND CORRECTION OF PRIOR PERIOD ERRORS TO 31 DECEMBER 2018 AS PREVIOUSLY REPORTED CONTINUED

The effect of the at acquisition measurement period adjustment (note 13.1) and the related impacts to 31 December 2018, together with the correction for the above prior period errors on the 31 December 2018 consolidated results are as follows (refer to note 6 for restated earnings per share information):

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

			Significant contract revenue recognition				
	31 December 2018 As previously reported R'000	Measurement period adjustments R'000	Revenue recognition R'000	Licence treated as principal instead of agent R'000	Sub-contractor treated as agent instead of principal R'000	IFRS 9 Expected credit loss allowance R'000	31 December 2018 Restated R'000
Revenue	667 211	–	(8 191)	(16 236)	14 009	–	656 793
Cost of sales	(261 371)	–	–	16 236	(15 244)	–	(260 379)
Gross profit	405 840	–	(8 191)	–	(1 235)	–	396 414
Administrative, selling and other costs	(288 098)	205	–	–	–	(2 602)	(290 495)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	117 742	205	(8 191)	–	(1 235)	(2 602)	105 919
Depreciation and amortisation	(12 555)	–	–	–	–	–	(12 555)
Amortisation of intangible assets acquired	(18 911)	912	–	–	–	–	(17 999)
Profit from operations	86 276	1 117	(8 191)	–	(1 235)	(2 602)	75 365
Finance income	2 138	–	(760)	–	–	–	1 378
Finance costs	(17 055)	–	–	–	–	–	(17 055)
Profit before taxation	71 359	1 117	(8 951)	–	(1 235)	(2 602)	59 688
Income tax expense	(25 207)	(83)	2 506		346	715	(21 723)
Profit for the year	46 152	1 034	(6 445)	–	(889)	(1 887)	37 965
Attributable to:							
Equity holders of the parent	45 132	1 034	(6 445)	–	(889)	(1 887)	36 945
Non-controlling interest	1 020	–	–	–	–	–	1 020
Other comprehensive income							
Items that may be reclassified subsequently to profit and loss	4 116	(3 190)	–	–	–	–	926
Exchange gain arising from translation of foreign operations	4 116	(3 190)	–	–	–	–	926
Total comprehensive income	50 268	(2 156)	(6 445)	–	(889)	(1 887)	38 891

STATEMENT OF FINANCIAL POSITION

	31 December 2018 As previously R'000	Measure-ment period adjustments R'000	Significant contract revenue recognition R'000	IFRS 15 and 9 transitional adjustments R'000	Pre-invoicing on executory contract R'000	IFRS 9 Expected credit loss allowance R'000	Re-classification adjustments IFRS 15 R'000	31 December 2018 Restated R'000
ASSETS								
Non-current assets	1 055 968	4 069	1 832	1 410	–	795	–	1 064 074
Property and equipment	107 786	21	–	–	–	–	–	107 807
Intangible assets	281 382	(26 998)	–	–	–	–	–	254 384
Goodwill	616 044	29 403	–	–	–	–	–	645 447
Finance lease receivables	23 999	–	–	(258)	–	80	–	23 821
Loans receivable	1 250	–	–	–	–	–	–	1 250
Deferred taxation asset	25 507	1 643	1 832	1 668	–	715	–	31 365
Current assets	580 832	(2)	(14 336)	(7 904)	(103 706)	(2 682)	–	452 202
Inventories	23 383	–	–		–	–	–	23 383
Trade and other receivables	359 421	–	(15 060)	(5 567)	(103 706)	(3 723)	(29 625)	201 740
Contract assets	–	–	(2 812)	(1 853)	–	758	29 625	25 718
Current tax receivable	9 351	–	3 536		–	–	–	12 887
Finance lease receivables	9 617	–	–	(484)	–	283	–	9 416
Loans receivable	500	–	–	–	–	–	–	500
Cash and cash equivalents	162 998	(2)	–	–	–	–	–	162 996
Assets classified as held for sale	15 562	–	–	–	–	–	–	15 562
Total assets	1 636 800	4 067	(12 504)	(6 494)	(103 706)	(1 887)	–	1 516 276
EQUITY AND LIABILITIES								
Equity								
Share capital	16	–	–	–	–	–	–	16
Treasury shares	(1)	–	–	–	–	–	–	(1)
Share premium	321 591	–	–	–	–	–	–	321 591
Equity compensation reserve	21 266	–	–	–	–	–	–	21 266
Business combination reserves	(15 217)	–	–	–	–	–	–	(15 217)
Foreign currency translation reserve	7 421	(1 476)	–	–	–	–	–	5 945
Retained earnings	407 418	931	(14 693)	(4 443)	–	(1 887)	–	387 326
Attributable to equity holders of the parent	742 494	(545)	(14 693)	(4 443)	–	(1 887)	–	720 926
Non-controlling interests	(248)	–	–	(7)	–	–	–	(255)
Total equity	742 246	(545)	(14 693)	(4 450)	–	(1 887)	–	720 671
Non-current liabilities	541 334	(2 474)	–	–	–	–	–	538 860
Interest-bearing borrowings	459 911	–	–	–	–	–	–	459 911
Financial liabilities	18 837	–	–	–	–	–	–	18 837
Finance lease liabilities	1 209	–	–	–	–	–	–	1 209
Deferred taxation liability	61 377	(2 474)	–	–	–	–	–	58 903
Current liabilities	353 220	7 086	2 189	(2 044)	(103 706)	–	–	256 745
Trade and other payables	163 046	10	889	(929)	(11 084)	–	–	151 932
Contract liabilities	–	4 662	–	(1 115)	(92 622)	–	130 709	41 634
Deferred income	129 409	–	1 300	–	–	–	(130 709)	–
Leave pay and provisions	26 684	–	–	–	–	–	–	26 684
Current tax payable	3 611	2 414	–	–	–	–	–	6 025
Current portion of interest-bearing borrowings	9 262	–	–	–	–	–	–	9 262
Financial liabilities	19 892	–	–	–	–	–	–	19 892
Finance lease liabilities	1 316	–	–	–	–	–	–	1 316
Total equity and liabilities	1 636 800	4 067	(12 504)	(6 494)	(103 706)	(1 887)	–	1 516 276

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

13. RESTATEMENT CONTINUED

13.2 MEASUREMENT PERIOD ADJUSTMENT AND CORRECTION OF PRIOR PERIOD ERRORS TO 31 DECEMBER 2018 AS PREVIOUSLY REPORTED CONTINUED

STATEMENT OF CASH FLOW

In addition to the prior period errors described on page 23, additional errors were noted on the statement of cash flow as follows:

- The cash flow relating to finance lease receivables was incorrectly disclosed as a cash flow from investing Activities instead of a cash flow from Operating Activities.
- The settlement of contingent purchase consideration in Investing Activities included the full amount of the cash settled, instead of only amounts recognised on date of acquisition. The imputed interest should have been recorded in Operating Activities as this is where finance costs cash flows are presented for the group. Furthermore, the cash settled in relation to changes to the anticipated amounts determined to the paid on date of acquisition, should have been presented in Financing Activities as this is where the group has elected to present such cash flows.
- The cash outflow on the acquisition of minority interest should have been classified as a Financing Activity instead of an Investing Activity.

	31 December 2018 As previously reported R'000	Measurement period adjustments R'000	Reclassification of net outflow on acquisition of minority interest R'000	Finance lease receivables reclassification R'000	Contingent consideration settlement R'000	31 December 2018 Restated R'000
OPERATING ACTIVITIES						
Cash generated from operations	58 305	(183)	–	1 037	(5 102)	54 057
Finance income	1 378	–	–	–	–	1 378
Finance costs	(14 938)	–	–	–	(2 928)	(17 866)
Dividends paid	(28 906)	–	–	–	–	(28 906)
Taxation paid	(34 221)	–	–	–	–	(34 221)
Net cash flow (utilised in)/generated from operating activities	(18 382)	(183)	–	1 037	(8 030)	(25 558)
INVESTING ACTIVITIES						
Property and equipment acquired	(21 018)	–	–	–	–	(21 018)
Intangible assets acquired and developed	(2 765)	–	–	–	–	(2 765)
Proceeds from loans receivable	17 635	–	–	–	–	17 635
Finance lease assets receipts/(payments)	1 037	–	–	(1 037)	–	–
Settlement of contingent purchase consideration	(44 054)	–	–	–	10 419	(33 635)
Net cash outflow on acquisition of subsidiaries	(79 057)	–		–	–	(79 057)
Net cash outflow on acquisition of minority interest	(12 519)	–	12 519	–	–	–
Net cash utilised in investment activities	(140 741)	–	12 519	(1 037)	10 419	(118 840)
FINANCING ACTIVITIES						
Proceeds from borrowings	625 236	–	–	–	–	625 236
Repayment of borrowings	(370 538)	–	–	–	–	(370 538)
Repayment of finance lease	(461)	–	–	–	–	(461)
Share repurchases	(22 297)	–	–	–	–	(22 297)
Settlement of acquired contingent purchase consideration relating to subsequent fair value changes	–	–	–	–	(2 389)	(2 389)
Net cash outflow on acquisition of minority interest	–	–	(12 519)	–	–	(12 519)
Net cash flows from financing activities	231 940	–	(12 519)	–	(2 389)	217 032
Net increase in cash resources	72 817	(183)	–	–	–	72 634
Exchange gain on translation	3 784	–	–	–	–	3 784
Cash and cash equivalents at beginning of year	86 397	181	–	–	–	86 578
Cash and cash equivalents at end of year	162 998	(2)	–	–	–	162 996

13.3 SEGMENT ANALYSIS ERRORS

The segment analysis for 31 December 2018 is restated for the following reasons:

- The effect of the measurement period adjustment, together with the correction of prior period errors (refer note 13.2);
- Communications should have been reported as a separate segment as its contribution is greater than 10%. Previously it was included in the Manufacturing and Financial Services segments;
- Shared services costs was inconsistently applied to determine segment EBITDA. These costs are now proportionately allocated based on segment EBITDA contribution before arriving at final segment EBITDA; and
- Other has been removed as a segment as these related to non-trading items.

The following table present turnover and EBITDA information regarding the group's operating segments for the period ended 31 December 2018 as previously reported:

	Education R'000	Manufacturing R'000	Financial Services R'000	Energy R'000	Hospitality R'000	Other R'000	Total R'000
Revenue	96 108	206 712	144 579	66 549	153 263	–	667 211
Segment EBITDA	17 404	49 042	26 608	10 449	18 902	(4 663)	117 742
EBITDA margin (%)	18	24	18	16	–	–	18

The effect of the measurement period adjustment and correction for the above prior period errors on the 31 December 2018 segment analysis are as follows:

	Education R'000	Manu-facturing R'000	Financial Services R'000	Energy R'000	Communi-cations R'000	Hospitality R'000	Other R'000	Total R'000
Revenue as previously reported	96 108	206 712	144 579	66 549	–	153 263		667 211
Significant contract revenue recognition	(1 305)	(6 965)	–	(2 148)	–	–	–	(10 418)
Communications separately reportable segment	–	(61 011)	(26 147)	–	87 158	–	–	–
Total revenue restated	94 803	138 736	118 432	64 401	87 158	153 263	–	656 793
EBITDA as previously reported	17 404	49 042	26 608	10 449	–	18 902	(4 663)	117 742
Significant contract revenue recognition	760	(8 038)	–	(2 148)	–	–	–	(9 426)
Measurement period adjustment	–	–	–	–	205	–	–	205
Expected credit loss allowance IFRS 9	716	(2 924)	(1 333)	115	125	699	–	(2 602)
Communications separately reportable segment	–	(32 264)	(13 827)	–	46 091	–	–	–
Shared services costs revised allocation	(1 041)	8 648	6 008	(1 511)	(13 323)	1 219	–	–
Non-trading items	–	–	–	–	–	–	4 663	4 663
Total EBITDA* restated	17 839	14 464	17 456	6 905	33 098	20 820	–	110 582
EBITDA margin restated (%)	19	10	15	11	38	14		17

** EBITDA represents operating profit before depreciation and amortisation adjusted for specific non-trading items.*

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

13. RESTATEMENT CONTINUED

13.4 MEASUREMENT PERIOD ADJUSTMENT TO 30 JUNE 2019 AS PREVIOUSLY REPORTED

The effect of the at acquisition measurement period adjustment (refer note 13.1) results has resulted in the recognition of the separately identifiable intangible asset and the resulting deferred taxation. This has been illustrated in the statements below, inclusive of the amortisation of the intangible asset for the period 30 June 2019.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	30 June 2019 As previously reported R'000	Conor measurement period adjustments R'000	30 June 2019 Restated R'000
Revenue	1 438 138	–	1 438 138
Cost of sales	(645 556)	–	(645 556)
Gross profit	792 582	–	792 582
Administrative, selling and other costs	(564 042)	–	(564 042)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	228 540	–	228 540
Depreciation and amortisation	(26 636)	–	(26 636)
Amortisation of intangible assets acquired	(36 154)	(2 800)	(38 954)
Profit from operations	165 750	(2 800)	162 950
Finance income	3 034	–	3 034
Finance costs	(42 830)	–	(42 830)
Profit before taxation	125 954	(2 800)	123 154
Income tax expense	(49 592)	784	(48 808)
Profit for the year	76 362	(2 016)	74 346
Attributable to:			
Equity holders of the parent	75 308	(2 016)	73 292
Non-controlling interest	1 054	–	1 054
Items that may be reclassified subsequently to profit and loss	(1 913)	–	(1 913)
Exchange loss arising from translation of foreign operations	(1 913)	–	(1 913)
Total comprehensive income	74 449	(2 016)	72 433
Headline earnings:			
Profit attributable to ordinary shareholders	75 308	(2 016)	73 292
– Impairment of asset held for sale	7 736	–	7 736
– Loss on sale of property and equipment	952	–	952
– Scrapping of property and equipment	430	–	430
– Total tax effects of adjustments	(393)	–	(393)
Headline earnings	84 033	(2 016)	82 017

STATEMENT OF FINANCIAL POSITION

	As previously reported R'000	Conor measurement period adjustments R'000	30 June 2019 Restated R'000
ASSETS			
Non-current assets	1 155 273	9 744	1 165 017
Property and equipment	110 433	–	110 433
Intangible assets	248 468	42 000	290 468
Goodwill	739 424	(32 256)	707 168
Finance lease receivables	20 200	–	20 200
Loans receivable	6 000	–	6 000
Deferred taxation asset	30 748	–	30 748
Current assets	464 251	–	464 251
Inventories	26 418	–	26 418
Trade and other receivables	311 536	–	311 536
Contract assets	24 224	–	24 224
Current tax receivable	22 538	–	22 538
Finance lease receivables	12 804	–	12 804
Loans receivable	500	–	500
Cash and cash equivalents	58 405	–	58 405
Assets classified as held for sale	7 826	–	7 826
Total assets	1 619 524	9 744	1 629 268
EQUITY AND LIABILITIES			
Equity			
Share capital	15	–	15
Treasury shares	(2)	–	(2)
Share premium	248 124	–	248 124
Equity compensation reserve	17 988	–	17 988
Business combination reserves	(15 664)	–	(15 664)
Foreign currency translation reserve	3 106	–	3 106
Retained earnings	425 688	(2 016)	423 672
Attributable to equity holders of the parent	679 255	(2 016)	677 239
Non-controlling interests	(221)	–	(221)
Total equity	679 034	(2 016)	677 018
Non-current liabilities	87 870	11 760	99 630
Interest-bearing borrowings	2 987	–	2 987
Financial liabilities	40 750	–	40 750
Finance lease liabilities	878	–	878
Deferred taxation liability	43 255	11 760	55 015
Current liabilities	852 620	–	852 620
Trade and other payables	158 002	–	158 002
Contract liabilities	107 744	–	107 744
Leave pay and provisions	59 763	–	59 763
Current tax payable	11 122	–	11 122
Current portion of interest-bearing borrowings	498 005	–	498 005
Financial liabilities	16 867	–	16 867
Finance lease liabilities	1 117	–	1 117
Total equity and liabilities	1 619 524	9 744	1 629 268

NOTES TO THE **UNAUDITED FINANCIAL STATEMENTS** CONTINUED

	Unaudited 31 December 2019 R'000	Unaudited 31 December 2018* R'000	Unaudited 30 June 2019# R'000
14. OPERATING CASH FLOW			
Profit before taxation	**39 277**	59 688	123 154
Adjustments for:			
Depreciation and amortisation	**52 614**	30 554	77 837
Unrealised foreign exchange gains	**(473)**	(388)	(172)
Net (profit)/loss on disposal of property and equipment	**(466)**	(22)	952
Finance income (refer note 4)	**(621)**	(1 378)	(3 034)
Finance costs (refer note 5)	**42 946**	17 055	42 830
Share-based payment expense/(release)	**–**	2 045	(1 233)
Scrapping of property and equipment	**–**	–	430
Gain arising on derecognition of financial liability measured at amortised cost	**–**	–	(3 262)
Impairment of asset held for sale	**–**	–	7 736
Discount on settlement of loans receivable	**–**	–	162
Transaction costs related to borrowings	**737**	–	2 413
Finance lease receivable profit	**(5 010)**	(6 713)	(15 614)
	129 004	100 841	232 199
15. WORKING CAPITAL OUTFLOW			
Increase in inventory	**(7 560)**	(715)	(3 234)
Decrease/(increase) in trade and other receivables, including contract assets	**50 498**	28 362	(94 387)
(Decrease)/increase in trade and other payables	**(13 961)**	3 940	27 606
Decrease in contract liabilities	**(55 735)**	(58 719)	(3 416)
Finance lease receivable receipts	**5 527**	6 713	14 120
(Decrease)/increase in leave pay and provisions	**(33 663)**	(26 365)	5 799
	(54 894)	(46 784)	(53 512)
16. TAXATION PAID			
Charge to the statement of profit or loss and other comprehensive income	**17 174**	21 723	48 808
Adjustment for deferred taxation	**(16 833)**	(4 262)	5 800
Acquisition of subsidiary	**–**	4 430	4 430
Foreign exchange adjustments	**104**	(250)	(322)
Movement in taxation balance	**31 762**	12 580	10 122
	32 207	34 221	68 838

* *See note 13.1 for details regarding the restatement for measurement period adjustment and note 13.2 for details about restatement as a result of prior period errors.*

\# *See note 13.4 for details regarding the restatement for measurement period adjustment. The measurement period results have not yet been audited and will only be audited at 30 June 2020 year-end.*

REPORT **DISCLAIMER**

At Adapt IT Holdings Limited ("Adapt IT") we appreciate the need for transparency and accountability and wish to use this report to provide general information about our company. We do not intend for the information to constitute investment or other professional or financial product advice. We also do not intend for you to use information as the basis for making an investment decision. You must consult professional advisers before making such an investment decision or taking any action which might affect your personal finances or business.

We have prepared this report based on information currently available to us, including information we have obtained from third parties that has not been independently verified. We do not expressly or impliedly warrant the fairness, accuracy, correctness, completeness or reliability of the information, opinions or conclusions we express as part of the report.

Any opinions, statements or information we make available as part of this report may change without notifying you, and we express it in good faith.

A significant portion of the information that we disclose in this report contains "forward-looking information," as described in the Financial Markets Act of 2014 (and which we collectively refer to as forward-looking statements). Only statements of historical fact are not forward-looking statements. Information that constitutes forward-looking statements in this report includes, but is not limited to, (i) the expected development and progression of our business and projects; (ii) the execution of our vision and growth strategy, including future mergers and acquisitions activity and international growth; and (iii) the continuation or renewal of our current customer, collaborator, supplier and other key agreements.

CORPORATE **INFORMATION**

ADAPT IT HOLDINGS LIMITED

Incorporated in the Republic of South Africa
Registration number 1998/017276/06
Share code: ADI
ISIN: ZAE000113163
JSE Main Board Sector: Technology
– Software & Computer Services
Listing date: 1998
Shares in issue: 152 513 154
(as at 31 December 2019)
Net of treasury shares: 137 261 840

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Oliver Fortuin* (Lead Independent Director)
Catherine Koffman*
Zizipho Nyanga*
Sbu Shabalala (Chief Executive Officer)
Tiffany Dundson (Chief Commercial Officer)
Nombali Mbambo (Chief Financial Officer)
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