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# BUILDING BLOCKS FOR GROWTH

**PROVISIONAL  
FINANCIAL RESULTS**

for the year ended  
31 March 2019



**SEPHAKU**  
HOLDINGS LTD

(Incorporated in the Republic of South Africa)  
(Registration number: 2005/003306/06)

Share code: SEP  
ISIN: ZAE000138459



## SALIENT POINTS

### Group

- **Group consolidated revenue: R836 million**
- **Net profit after tax: R44 million**
- **Headline earnings per share: 21 cents**

### Métier

- **Profit after tax: R22 million**
- **EBITDA margin: 6% at R52 million**
- **Bank term loan reduced by R35 million**

### SepCem<sup>1</sup>

- **Sales revenue: R2,3 billion**
- **EBITDA margin: 20% at R462 million**
- **Profit after tax: R129 million**
- **SepCem 36% equity accounted earnings: R46 million**
- **Bank project loan reduced by R182 million**

### Forward-looking statements

Any forward-looking information is the responsibility of the board of directors and has not been reviewed or reported on by the company's external auditors.

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<sup>1</sup> SepCem has a December year-end as a subsidiary of Dangote Cement PLC.

# PROVISIONAL FINANCIAL RESULTS

for the year ended 31 March 2019



## Remarking on the results, Chief Executive Officer, Dr Lelau Mohuba said,

*“The building and construction materials manufacturers continued to experience tough operating conditions. The estimated annual GDP growth was 0.8% for 2018, with the construction industry contracting by 1.2% year on year. Macroeconomic expenditure in construction works, residential and non-residential sectors decreased, contributing to a 1.4% contraction in gross fixed capital formation. These statistics serve to illustrate the weak demand environment that contributed to our performance during the year under review. As a group, we focused on lowering debt, defending our share of the market and improving cost efficiencies.*

*We recognise the inherent cyclicity of building materials demand, and are cognisant that during the downturn as we have been experiencing, it is imperative that we strategically steer the business along the trajectory of our long-term vision. To that end, we continued to focus on reducing group debt with the goal of achieving a net debt to EBITDA ratio of 2.5 for SepCem and 2.0 for Métier. Since the 2015 financial year we have repaid approximately R1 billion in spite of a highly constrained trading environment. Furthermore, we will continue to evaluate growth opportunities in preparation for the period following the repayment of debt.*

*The group, with the guidance of the board, also focussed on strengthening the corporate governance processes and systems in line with King IV which included enhancing our risk management and stakeholder engagement efforts. The latter was particularly essential in our interactions with the communities located around the SepCem operations in the North West province. The engagement processes have been laden by lack of recognised community leadership and unsustainable demands for employment and supply opportunities. That as it may, we made significant progress by successfully appointing six directors including their alternates from three neighbouring communities to the Aganang integrated cement plant’s empowerment structure, Torossha. We are pleased that the various provincial and national government departments have continued providing support to facilitate effective engagement for the mutual benefit of all our stakeholders.*

*Finally, we expect the building materials demand to remain constrained due to the short-term challenges in stimulating the economy against the backdrop of high sovereign debt and loss-making state-owned entities. Therefore, our outlook for the next 12 to 24 months remains negative anticipating anaemic growth unless the newly elected government urgently provides requisite impetus through pro-infrastructure investment policies.”*

## ANALYST RESULTS PRESENTATION

A results presentation will be hosted at the Johannesburg Stock Exchange and simultaneously webcast on Wednesday, 26 June 2019 at 10:30hs.

**The link to access the webcast is:**

<http://themediframe.eu/links/sephold190626.html>

**The results presentation can be downloaded from the company website:**

<http://sephakuholdings.com/investor-centre/presentations/>

Participants are requested to download the presentation and announcement because there will not be any hard copies provided at the event.



# COMMENTARY

Sephaku Holdings Limited (“SepHold” or “the company”) hereby reports on the group’s provisional financial results for the year ended 31 March 2019. SepHold, Métier Mixed Concrete (Pty) Ltd (“Métier” or “the subsidiary”) and Dangote Cement SA (Pty) Ltd (“SepCem” or “the associate”) are collectively referred to as the group.

## SEPHOLD

### Head-office expenses reduction

In line with the constrained operating environment, SepHold executive management commenced the implementation of the head office expenses reduction plan. The company did not replace three directors following their resignation from the board and reduced executive management remuneration. The comparative annual expenses were 9% lower at R22,9 million from these initial savings achieved for the six months ended 31 March 2019. The non-cash portion was approximately 21% (R4,8 million) mainly constituting depreciation and option vesting expenses. The executive management has further committed to not increase their remuneration for FY2020. The plan will result in expenses 25% lower than FY2018 (R25,3 million) by the end of FY2020.

## MÉTIER

### Sales volumes

The subsidiary’s sales volumes increased marginally by 1% due to the declining construction activity and fierce competition. The KwaZulu Natal volumes were 11% lower year on year but Gauteng volumes increased by 15% due to the mobile and thirteenth plants that were operational for 3 months and 6 months respectively. The strategic decision to increase plant footprint in the relatively high demand nodes of Pretoria, supported Métier’s volumes. On a like-for-like basis, excluding the new tonnage, the subsidiary’s volumes decreased by 2.6%.

### Profitability

Métier’s gross profit was R320,5 million compared to R341,9 million (FY2018) mainly due to a 6.7% increase in cost of sales as a result of the product mix against flat pricing. To support margins, management optimised production and logistics assets to align to prevailing demand. The subsidiary reduced the outsourced fleet by 16% to maximise the utilisation of owned fleet. Métier’s low pricing environment against inflationary input costs and expenses resulted in a 55% decrease in net profit. The subsidiary’s EBITDA margin decreased to 6.2% (FY2018: 10.9%), operating margin to 4.7% (FY2018: 9.6%) and net profit to R21,5 million (FY2018: R48,0 million).

### Debtors management

Métier’s market was characterised by numerous construction projects being suspended or terminated. This resulted in several incidences of business liquidation and rescue. To minimise customer defaults, the subsidiary continued to implement stricter credit terms including suspension of concrete supply for late remittances to ensure customer compliance. All credit limits are reviewed regularly and Métier considers the guidance from the credit vetting institutions.

The subsidiary wrote off R8,95 million in debtors for the year with R4,59 million through the income statement and R4,35 million against the R6 million provision for bad debts. To further mitigate against the incidence of defaults, Métier will increase the proportion of cash sales and expects the debtor profile to improve during CY2020.

### Debt management

Métier’s term loan principal was reduced by 49% to R41 million (FY2018: R80,4 million) in line with the group’s stated priority of deleveraging the balance sheets. The subsidiary has two loan facilities with the same lender, there is a revolving credit facility for R100 million at a quarterly interest rate of JIBAR plus 400bps. The revolving facility balance as at 31 March 2019 was R81,4 million. The final contractual payment for the term loan is scheduled for 15 April 2020.

## SEPHAKU CEMENT

### Sales volume

The low cement demand was exacerbated by increases in the value added tax and fuel price during Q1 and Q4 CY2018, respectively. These increases seem to have negatively impacted retail customers' purchasing power. Consequently, intense competition between the cement manufacturers, blenders and importers ensued during the year resulting in SepCem's sales volume decreasing by 6,4% year on year.

### Revenue and profitability

Price increases were implemented in February and August 2018 resulting in 3.5% average increase per tonne. This effective increase was lower than targeted because of a higher volume proportion of bulk cement and intense competition in highly contested markets. SepCem's revenue decreased by 3.1% to R2,29 billion (2017: R2,37 billion) and the EBITDA margin was 20.1% (R461,5 million) compared to 21.3% (R504,2 million) for the prior period ended 31 December 2017.

The profit margins were further impacted by above inflation cost increases in inputs such as coal, electricity and fuel. Furthermore, due to the low quality of coal available to the local market, the associate had a higher than planned plant maintenance cost which contributed to the lower than targeted profit margins. SepCem has started various initiatives to eliminate and or mitigate against these challenges.

SepCem's net profit was R128,7 million mainly due to a R81,7 million tax credit that was granted in 2018 for the 2017 tax period. The 12L tax incentive provides for an energy efficiency allowance to be claimed at 98c/kWh for the energy savings achieved against a set baseline. The associate achieved a total energy saving of 307 GWh against a benchmark based on the energy efficiency of a modern plant. Excluding the tax credit, the net profit was R46,9 million compared to R57,8 million in 2017.

### Debt management

SepCem repaid R181,9 million of the project loan capital resulting in a balance of R1,65 billion at the end of December 2018. The total debt service was R379,4 million including interest expense of R197,5 million. The debt covenants continued to be under pressure during the year because of lower than targeted EBITDA margins.

The Dangote Cement PLC shareholder loan increased to R474,0 million from R424,3 million accruing interest at JIBAR plus 400bps. SepCem's cash balance at the beginning of the year was R413 million and the associate generated R483 million from its operations during the year ending with a cash balance of R508 million. This confirms that SepCem can comply with its debt repayment requirements with the potential to enhance its cash generative capacity through higher cement prices.

### Post-period

Following the Dangote Cement PLC results announcement on 29 April 2019 for the first quarter period ended 31 March 2019, SepCem's revenue decreased to R487 million (Q1 2018: R566 million). The quarterly sales volumes to 31 March 2019, were 19% lower year on year mainly due to the anomalously high comparative volumes in the previous year when SepCem recorded a 7% increase. SepCem's estimates for the Q1 2019 industry volume decrease is 10% - 12%. The associate's exceptional volume increase in Q1 2018 was a result of absorbing a competitor's sales volumes challenged by plant breakdowns.

The quarterly volumes were further impacted by the increase in imports which resulted in a decrease in SepCem's KwaZulu Natal volumes. The associate prudently maintained prices to achieve targeted margins at lower volumes. To that end, SepCem increased pricing by 8% - 10% per tonne on both bagged and bulk cement in all its markets during Q1 2019. The effective increases were 5% - 7% per tonne due to pricing competition as demand remains constrained.

These quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2019.



**Carbon tax**

The government commenced the application of carbon tax on 1 June 2019 based on carbon emissions generated from all manufacturing industries. Inherently, cement manufacturers produce carbon emissions during the clinker production process through the use of coal to burn limestone and other raw materials at extremely high temperatures. Based on SepCem's estimated carbon emissions, the tax payable will be approximately R35 million to R40 million per annum. The associate will apply the tax on its products based on the proportion of clinker per tonne, which translates to between 1.5% and 2.5% price increases on lower strength and high strength cement respectively.

SepCem will increase prices in July 2019 by 4% - 6% in line with the implementation of the carbon tax and standard biannual increases.

# STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

	Notes	GROUP	
		2019 R	2018 R
Revenue		835 823 568	830 686 042
Cost of sales		(515 275 407)	(488 756 744)
<b>Gross profit</b>		<b>320 548 161</b>	341 929 298
Other operating income	4	2 999 418	4 732 869
Operating expenses		(308 852 077)	(292 334 309)
<b>Operating profit/(loss)</b>	5	<b>14 695 502</b>	54 327 858
Investment income		2 532 411	4 749 191
Profit from equity-accounted investment	6	46 331 599	20 819 672
Finance costs	17	(16 489 095)	(22 032 115)
<b>Profit/(loss) before taxation</b>		<b>47 070 417</b>	57 864 606
Taxation	19	(3 029 811)	(13 697 584)
<b>Profit/(loss) for the year</b>		<b>44 040 606</b>	44 167 022
<b>Other comprehensive income/(loss)</b>			
<b>Items that will not be reclassified to profit or loss:</b>			
Revaluation reserve on land of associate written back		-	(1 207 663)
<b>Total comprehensive income/(loss) for the year</b>		<b>44 040 606</b>	42 959 359
<b>Total comprehensive income/(loss) attributable to:</b>			
Equity holders of the parent		44 040 606	42 959 359
		44 040 606	42 959 359
Basic earnings per share (cents)	8	21,21	21,60
Diluted earnings per share (cents)	8	21,19	21,49

# STATEMENTS OF FINANCIAL POSITION

as at 31 March 2019

		GROUP	
		2019	2018
		R	R
	Notes		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	147 059 791	143 665 110
Goodwill	18	223 421 981	223 421 981
Intangible asset	13	573 510	2 867 551
Investment in joint ventures	21	120 552	120 552
Investment in associate	6	812 201 874	765 870 275
Other financial assets		10 918 381	8 459 008
Long-term loans		-	2 000 000
Other investments		2 000 000	-
		<b>1 196 296 089</b>	<b>1 146 404 477</b>
<b>Current assets</b>			
Inventories		18 154 356	16 829 437
Current tax receivable		1 175 731	-
Trade and other receivables	10	100 849 007	133 331 514
Cash and cash equivalents	12	2 823 868	10 510 169
		<b>123 002 962</b>	<b>160 671 120</b>
<b>Total assets</b>		<b>1 319 299 051</b>	<b>1 307 075 597</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Stated capital	23	648 003 095	644 443 723
Reserves		14 351 157	12 025 844
Retained income		422 969 425	378 928 819
		<b>1 085 323 677</b>	<b>1 035 398 386</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other financial liabilities	16	81 014 556	121 353 224
Deferred income		877 557	1 555 444
Deferred taxation		21 772 407	21 022 839
		<b>103 664 520</b>	<b>143 931 507</b>
<b>Current liabilities</b>			
Other financial liabilities	16	40 721 110	39 781 797
Current taxation payable		-	307 491
Operating lease liability		4 085 158	4 090 842
Trade and other payables	11	80 096 267	76 192 231
Deferred income		677 887	677 887
Bank overdraft	12	4 730 432	6 695 456
		<b>130 310 854</b>	<b>127 745 704</b>
<b>Total liabilities</b>		<b>233 975 374</b>	<b>271 677 211</b>
<b>Total equity and liabilities</b>		<b>1 319 299 051</b>	<b>1 307 075 597</b>
Net asset value per share (cents)	8	521,25	501,79
Tangible net asset value per share (cents)	8	413,75	392,51

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2019

	GROUP						
	Stated capital R	Revaluation reserve (relating to land of associate) R	Equity-based share option reserve R	Total reserves R	Retained income R	Total equity R	
<b>Balance at 31 March 2017</b>	635 403 188	(1 207 663)	20 469 750	19 262 087	329 214 333	983 879 608	
Profit for the year	-	-	-	-	44 167 022	44 167 022	
Other comprehensive income for the year	-	1 207 663	-	1 207 663	-	1 207 663	
<b>Total comprehensive income for the year</b>	-	1 207 663	-	1 207 663	44 167 022	45 374 685	
Issue of shares	9 040 535	-	-	-	-	9 040 535	
Employees' share option scheme	-	-	(8 443 906)	(8 443 906)	5 547 464	(2 896 442)	
<b>Balance at 31 March 2018</b>	644 443 723	-	12 025 844	12 025 844	378 928 819	1 035 398 386	
Profit for the year	-	-	-	-	44 040 606	44 040 606	
<b>Total comprehensive income for the year</b>	-	-	-	-	44 040 606	44 040 606	
Issue of shares	3 559 372	-	-	-	-	9 040 535	
Employees' share option scheme	-	-	2 325 313	2 325 313	-	2 325 313	
<b>Balance at 31 March 2019</b>	648 003 095	-	14 351 157	14 351 157	422 969 425	1 085 323 677	
Notes	23	6					

# STATEMENTS OF CASH FLOWS

for the year ended 31 March 2019

		GROUP	
		2019	2018
		R	R
	Notes		
<b>Cash flows from operating activities</b>			
Cash generated from/(utilised in) operations	3	66 574 487	47 455 351
Interest income		2 532 411	4 749 191
Finance costs	17	(16 200 978)	(21 298 838)
Taxation paid	20	(3 763 466)	(12 472 313)
<b>Net cash from/(utilised in) operating activities</b>		<b>49 142 454</b>	<b>18 433 391</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(19 945 027)	(14 915 358)
Disposal of property, plant and equipment	9	3 668 768	4 314 861
Loans repaid		1 100 000	650 837
Investment increase in joint venture		-	(40 754)
<b>Net cash (utilised in)/from investing activities</b>		<b>(15 176 259)</b>	<b>(9 990 414)</b>
<b>Cash flows from financing activities</b>			
Proceeds on share issue	23	-	6 149 397
Repayment of other financial liabilities		(39 687 472)	(55 534 494)
Advances of loans (to)/from group companies		-	-
<b>Net cash (utilised in)/from financing activities</b>		<b>(39 687 472)</b>	<b>(49 385 097)</b>
<b>Total cash and cash equivalents movement for the year</b>		<b>(5 721 277)</b>	<b>(40 942 120)</b>
Cash and cash equivalents at the beginning of the year		3 814 713	44 756 833
<b>Total cash and cash equivalents at the end of the year</b>	12	<b>(1 906 564)</b>	<b>3 814 713</b>

# ACCOUNTING POLICIES

for the year ended 31 March 2019

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The summarised consolidated provisional financial results are prepared in accordance with the requirements of the JSE Limited Listings Requirements (“Listings Requirements”) for abridged reports and the requirements of the Companies Act of South Africa No 71 of 2008. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (“IFRS”) of the International Accounting Standards Board (“IASB”), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council and must also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements, from which the abridged consolidated financial statements were derived, are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the change in the new or revised accounting standards and interpretations of those standards that were adopted.

As a result of the adoption of the new and amended standards and interpretations in issue that were effective for the first time in the current reporting period, a number of new policies were introduced. However, the adoption of these new and amended standards and interpretations did not have a material impact on the annual financial statements in the current period. Refer to note 2.1 for details of standards adopted in the current period.

### 1.1 Consolidation

#### *Basis of consolidation*

The group consolidates its subsidiaries. The group’s interest in its associate is accounted for using the equity method of accounting. Accounting policies are applied consistently in all group companies.

The results of the subsidiaries are included for the duration of the period in which the group exercised control over the subsidiaries.

Business combinations are accounted for using the acquisition method as the acquisition date, ie when control is transferred to Sephaku Holdings Limited. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

All intra-group transactions, balances, income and expenses relating to subsidiaries are eliminated in full on consolidation.

#### *Investment in associates and joint ventures*

An investment in an associate/joint venture is accounted for using the equity method. Under the equity method, investments in associates/joint ventures are carried in the consolidated statement of financial position at cost, adjusted for post-acquisition changes in the group’s share of net assets of the associate/joint venture, less any impairment losses.

The group recognises its share of losses of the associate/joint venture to the extent of the group’s net investment in the associate/joint venture.

The group’s share of unrealised intra-company gains are eliminated on consolidation, and the group’s share of intra-company losses is also eliminated provided they do not provide evidence that the asset transferred is impaired.

The group’s share of post-acquisition profits or losses, other comprehensive income and movements in equity of the associate is included in the group’s profit or loss, other comprehensive income and equity reserves respectively.

### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### *Trade and other receivables*

The group assesses its trade and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses using a provision matrix.



# ACCOUNTING POLICIES (continued)

for the year ended 31 March 2019

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### *Loans receivable*

##### *Definition of default*

The loans are considered to be in default when there is evidence that the borrower is in significant financial difficulty such that it will have insufficient funds to repay the loan on demand. This is assessed based on a number of factors including various liquidity and solvency ratios.

##### *Significant increase in credit risk assessment*

This assessment is performed qualitatively by reference to the borrower's cash flow and liquid asset position. The risk that the borrower will default on a demand loan depends on whether the borrower has sufficient cash or other liquid assets to repay the loan immediately (meaning that the risk of default is very low, possibly close to 0%) or it will not (meaning that the risk of default is very high, possibly close to 100%).

##### *Credit impaired indicators*

The loans are considered to be credit impaired if they meet the definition of a defaulted loan.

##### *Impairment testing of goodwill and investment in subsidiaries*

The recoverable amount of the cash-generating unit (Métier) has been determined based on a value-in-use calculation, using cash flow projections which cover a three-year period.

The following assumptions have been applied when reviewing goodwill impairment:

- A growth rate of 5,24% (2018: 6%) was applied and cash flows were discounted at a pre tax rate of 17,93% (2018: 17,93%), which is the estimated cost of capital as it relates to Métier.
- Asset values were based on the carrying amounts for the financial period.
- Future profits were estimated using historical information and approved three-year budgets.
- Sales growth/gross margins were based on historical achievement/known future prospects.
- Costs were assumed to grow in line with expansion and expected inflation.
- Cash flows have been extended into perpetuity at the growth rates noted above as management has no reason to believe the company will not continue past the budget period.

##### *Estimation of useful lives and residual values*

The estimation of the useful lives of assets is based on historic performance as well as expectations about future use, and therefore requires a significant degree of judgement to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product life cycles and maintenance programmes (refer to accounting policy 1.4 Property, plant and equipment). Residual value assessments consider issues such as future market conditions, the remaining lives of the assets and projected disposal values.

The useful life of the intangible asset is assessed, at a minimum, on an annual basis, or when there are indicators present that there is a change from the previous estimate. Estimates of the useful life of the intangible asset are based on the remaining customer contractual period of three months (2018: 15 months). Due to subsequent delays, the contract will only be completed in September 2019.

### 1.3 Property, plant and equipment

Property, plant and equipment are initially measured at cost.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Property, plant and equipment are subsequently stated at cost less accumulated depreciation and any impairment losses.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.3 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Depreciation of an asset commences when the asset is available for use as intended by management.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Land is not depreciated as it has an indefinite useful life.
Buildings	30 years
Plant and machinery	15 years
Furniture and fixtures	6 years
Motor vehicles	5 years
Office equipment	5 years
Computer equipment	3 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period.

The depreciation charge for each period is recognised in profit or loss.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. This is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.4 Intangible asset

Intangible assets acquired in a business combination are initially recognised at fair value.

The amortisation period and the amortisation method for intangible assets are reviewed at every year-end.

Due to the Métier acquisition during 2013, the Vulindlela Development Association customer contract was signed for a five-year period. This contract was extended on 31 December 2013 to a seven-year period. On 25 June 2016, the contract was further extended to an eight-year contract period, this resulted in a change in accounting estimate. Amortisation is provided to write down the Vulindlela Development Association customer contract classified as an intangible asset on a straight-line basis over the contractual period. Any amendments to the contract period are accounted for as a change in accounting estimate in line with IAS 8. The residual value for the contract is nil.

### 1.5 Financial instruments

#### *IFRS 9 current year*

Financial instruments held by the group are classified in accordance with the provisions of IFRS 9 *Financial Instruments*.

Broadly, the classification possibilities, which are adopted by the Group, as applicable, are as follows:

Financial assets which are equity instruments are:

- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income (this designation is not available to equity instruments which are held for trading or which are a contingent consideration in a business combination).

Financial assets which are debt instruments:

- Amortised cost (this category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income (this category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss (this classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss (this classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).



# ACCOUNTING POLICIES (continued)

for the year ended 31 March 2019

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.5 Financial instruments (continued)

#### *IFRS 9 current year (continued)*

Derivatives which are not part of a hedging relationship:

- Mandatorily at fair value through profit or loss.

Financial liabilities:

- Amortised cost; or
- Mandatorily at fair value through profit or loss (this applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss (this classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the group are presented below:

#### *Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- Amortised cost;
- Fair value through profit or loss (FVTPL); and
- Fair value through other comprehensive income (FVOCI).

In the periods presented, the group does not have any financial assets categorised as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

#### *Subsequent measurement*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

#### *Fair value determination*

If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.5 Financial instruments (continued)

#### *IFRS 9 current year (continued)*

##### *Impairment of financial assets*

IFRS 9's impairment requirements use more forward looking information to recognise expected credit losses – the expected credit loss (ECL) model. This replaces IAS 39's incurred loss model. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and trade receivables that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the group first identifying a credit loss event. Instead, the group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectibility of the future cash flows of the instrument.

In applying this forward looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2).
- Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses are recognised for the first category while lifetime expected credit losses are recognised for the second category.

Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument.

##### *Previous financial asset impairment under IAS 39*

In the prior year, the impairment of trade receivables was based on the incurred loss model. Individually significant receivables were considered for impairment when they were past due or when other objective evidence was received that a specific counterparty will default. Receivables that were not considered to be individually impaired were reviewed for impairment in groups, which are determined by reference to the industry and region of the counterparty and other shared credit risk characteristics. The impairment loss estimate was then based on recent historical counterparty default rates for each identified group.

##### *Trade and other receivables*

The group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The group uses its historical experience external indicators and forward looking information to calculate the expected credit losses using a provision matrix. The group assesses impairment of trade receivables on a collective basis. Since they possess shared credit risk characteristics, they have been grouped based on the days past due. Refer to note 10 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

##### *Classification and measurement of financial liabilities*

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below. The group's financial liabilities include borrowings and trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

##### *Trade and other payables*

Trade and other payables are classified as financial liabilities at amortised cost.

# ACCOUNTING POLICIES (continued)

for the year ended 31 March 2019

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.5 Financial instruments (continued)

#### *IFRS 9 current year (continued)*

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are classified as financial instruments at amortised cost.

##### *Bank overdraft and other financial liabilities*

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of other financial liabilities is recognised over the term of the other financial liabilities in accordance with the group's accounting policy for borrowing costs.

Other financial liabilities are classified as financial liabilities at amortised cost.

#### *IAS 39 comparatives*

##### *Classification*

The company classifies financial assets and financial liabilities into the following categories:

- Loans and receivables; and
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is reassessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

##### *Initial recognition and measurement*

Financial instruments are recognised initially when the group becomes a party to the contractual provisions of the instruments. The group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

##### *Subsequent measurement*

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

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

No discounting is applied for instruments at amortised cost where the effects of the time value of money are not considered to be material.

##### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

##### *Impairment of financial assets*

At each reporting date, the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

##### *Loans to shareholders*

These financial assets are classified as loans and receivables.

## **1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

### **1.5 Financial instruments (continued)**

#### *IAS 39 comparatives (continued)*

##### *Trade and other receivables*

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as financial assets.

##### *Trade and other payables*

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Transaction costs are included in the initial value recognised. Trade and other payables are classified as financial liabilities at amortised cost.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Cash and cash equivalents are classified as financial assets.

##### *Bank overdrafts and borrowings*

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

Other financial liabilities are classified as financial liabilities at amortised cost.

# ACCOUNTING POLICIES (continued)

for the year ended 31 March 2019

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.6 Impairment of assets

The group assesses, at the end of the reporting period, whether there is any indication that an asset may be impaired. If any such indication exists, the group estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the group annually tests goodwill acquired in a business combination for impairment.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss.

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit, *pro rata*, on the basis of the carrying amount of each asset in the unit.

The group assesses, at each reporting date, whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss.

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

### 1.7 Revenue from contracts with customers

#### *IFRS 15 Revenue from Contracts with Customers current year*

Revenue arises mainly from the sale of a variety of standard and specialised high-value concrete products to the construction industry. To determine whether to recognise revenue, the group follows a five-step process:

- (1) Identifying the contract with a customer.
- (2) Identifying the performance obligations.
- (3) Determining the transaction price.
- (4) Allocating the transaction price to the performance obligations.
- (5) Recognising revenue when the performance obligations are satisfied.

The group often enters into transactions involving a range of the group's products and services. The main source of revenue being the manufacture and supply of quality ready-mixed concrete products for the residential, commercial and industrial markets in South Africa. In all cases, the total transaction price for a contract is allocated among the various performance obligations based on their relative standalone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Sales of concrete products are recognised at a point in time and management services are recognised over time.

The group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the group satisfies a performance obligation before it receives the consideration, the group recognises either a contract asset or a receivable in its statement of financial position.

#### *IAS 18 Revenue prior year*

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods (ready-mixed concrete) and services (administration fees and rental income at company level) provided in the normal course of business, net of trade discounts and volume rebates, and value added taxation. Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred.

Interest is recognised in profit or loss using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is rendered.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2019

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 Standards and interpretations effective and adopted in the current year

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

Standard/interpretation	Effective date: Years beginning on or after
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018

#### *Effects of changes in accounting policies*

##### *IFRS 9 Financial Instruments*

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

When adopting IFRS 9, the group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognised in retained earnings.

The adoption of IFRS 9 has impacted the following areas:

- The classification and measurement of the group's financial assets. The impact of this resulted in additional disclosure.
- The impairment of financial assets applying the expected credit loss model. This affects the group's trade receivables. For contract assets arising from IFRS 15 and trade receivables, the group applies a simplified model or recognising lifetime expected credit losses as these items do not have a significant financing component. Refer to note 10.

There have been no changes to the classification or measurement of financial liabilities as a result of the application of IFRS 9. There was no material impact on the group other than the new disclosure on accounting policies 1.5 *Financial instruments* and notes 10 and 22 of the financial statements.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 *Revenue from Contracts with Customers* and the related Clarifications to IFRS 15 *Revenue from Contracts with Customers* (hereinafter referred to as IFRS 15) replace IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and several revenue-related interpretations. The new standard has been applied retrospectively without restatement, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at 1 January 2018. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 January 2018.

There was no material impact on the group other than the new disclosure on accounting policies 1.7 *Revenue from contracts with customers* and note 4 of the financial statements.

### 2.2 Standards and interpretations not yet effective

The list of standards and interpretations below only reflects those which are expected impact the group. The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 1 April 2019 or later periods:

#### *IFRS 16 Leases*

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.

## 2. NEW STANDARDS AND INTERPRETATIONS (continued)

### 2.2 Standards and interpretations not yet effective (continued)

#### *IFRS 16 Leases (continued)*

- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any remeasurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and remeasured for reassessments or modifications.
- Remeasurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is remeasured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is remeasured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee remeasures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from the other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 *Leases*.

The effective date of the standard is for years beginning on or after 1 January 2019.

The group expects to adopt the standard for the first time in the 2020 annual financial statements.

The estimated impact of implementing this standard as at and for the year ended, 31 March 2019 would be:

- Recognition of right-of-use assets in the statement of financial position – R54,0 million;
- Recognition of lease liabilities in the statement of financial position – R53,4 million;
- Recognition of depreciation on the right-of-use assets in the statement of comprehensive income – R11,1 million;
- Recognition of interest expense on the lease liabilities in the statement of comprehensive income – R6,5 million; and
- Reduction in operating expense in the statement of comprehensive income – R17,6 million

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 3. CASH GENERATED FROM/(USED IN) OPERATIONS

	GROUP	
	2019 R	2018 R
Profit/(loss) for the year	47 070 417	57 864 606
<b>Adjustments for:</b>		
Depreciation and amortisation	15 561 866	13 957 576
(Profit)/loss on sale of non-current assets	(386 248)	(1 930 319)
Profit from equity-accounted investments	(46 331 599)	(20 819 672)
Interest received	(2 532 411)	(4 749 191)
Finance costs	16 489 095	22 032 115
Movements in operating lease assets and accruals	(5 684)	(10 226)
Bad debts written off	-	50 000
Deferred income	(677 887)	(677 887)
Share options recorded against salary expense	2 325 313	2 849 424
<b>Changes in working capital:</b>		
Inventories	(1 324 919)	142 643
Trade and other receivables	32 482 508	(11 778 377)
Trade and other payables	3 904 036	(9 475 341)
	<b>66 574 487</b>	<b>47 455 351</b>

## 4. OTHER OPERATING INCOME

	GROUP	
	2019 R	2018 R
Discount received	51 741	644 002
Profit on sale of assets	386 248	1 930 319
Government grants	677 887	677 887
Other sundry income	1 883 542	1 480 661
	<b>2 999 418</b>	<b>4 732 869</b>

## 5. OPERATING PROFIT/(LOSS)

	GROUP	
	2019 R	2018 R
Operating profit/(loss) for the period is stated after accounting for the following:		
<b>Operating lease charges</b>		
Lease rentals on operating lease	(15 795 329)	(15 057 414)
Profit on sale of property, plant and equipment	386 248	1 930 319
Amortisation on intangible assets	(2 294 041)	(2 294 041)
Depreciation on property, plant and equipment	(13 267 826)	(11 663 536)
Employee costs	(96 481 118)	(91 326 086)
Auditor's remuneration	(867 931)	(816 003)

## 6. INVESTMENT IN ASSOCIATE

Sephaku Holdings Limited has a 36% ownership interest in Dangote Cement South Africa Proprietary Limited. The associate is unlisted and is registered and operates within South Africa.

Summary of group's interest in associate	2019 R	2018 R
Company level: Cost of investment in associate	<b>635 117 284</b>	635 117 284
Proportional increase in investment	<b>48 571 875</b>	48 571 875
Equity-accounted earnings – prior years	<b>80 973 453</b>	60 153 782
Equity-accounted earnings – current year	<b>46 331 599</b>	20 819 671
Revaluation reserve relating to land of associate – written back due to change in accounting policy	<b>1 207 663</b>	1 207 663
Group level: Carrying value of investment in associate	<b>812 201 874</b>	765 870 275

During the prior year, the group decided to change the accounting policy for land and buildings to the historical cost basis. This is in line with Dangote Cement South Africa Proprietary Limited who adopted this change in FY 2017. The result of this was the write back of the revaluation reserve of R1 207 663 relating to the land of the associate arising during FY 2012.

During 2017, Dangote Cement PLC and SepHold contributed R134 921 875 in equity to relieve pressure on the debt covenants. During the prior financial year, 6 938 839 shares at R7,00 per share were issued to SepHold and 12 335 715 shares at R7,00 per share issued to Dangote Cement PLC regarding the prior year contribution.

Since the debt service ratio was 1,225 during 2017 instead of the required 1,3, negotiations were entered into with Nedbank to reshape the payment profile. This was successfully completed during the second half of 2017 and required a further R95 million contribution by shareholders. Dangote Cement PLC made this contribution and in terms of the relationship agreement, SepHold will have to contribute 36% of this on demand or face dilution of approximately 1,2 percentage points. The shareholders are still in agreement with regard to the postponement of the timing of the repayment or dilution. SepHold has a potential liability of R34,2 million or a dilution in investment.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 6. INVESTMENT IN ASSOCIATE (continued)

### Impairment testing

No indications of impairment were identified and therefore no impairment testing was performed for the current financial year.

The net asset value of the associate is R1 624 828 550 (2018: R1 496 269 042) as indicated below:

Summary of group interest in Dangote Cement South Africa Proprietary Limited and its subsidiaries	2019* R	2018* R
Non-current assets	3 277 241 222	3 295 208 712
Current assets	896 605 658	819 849 860
<b>Total assets</b>	<b>4 173 846 880</b>	<b>4 115 058 572</b>
<b>Total equity</b>	<b>1 624 828 550</b>	<b>1 496 269 042</b>
Non-current liabilities	(1 903 059 030)	(2 108 266 538)
Current liabilities	(645 959 300)	(510 522 992)
<b>Total liabilities</b>	<b>(2 549 018 330)</b>	<b>(2 618 789 530)</b>
Revenue for the period	2 292 157 090	2 365 548 412
Cost of sales	(1 852 356 625)	(1 853 935 209)
<b>Gross profit</b>	<b>439 800 465</b>	<b>511 613 203</b>
Operating profit	280 615 454	333 294 740
Investment income	26 492 846	13 988 113
Finance costs	(250 658 856)	(268 462 161)
Profit before taxation	56 449 444	78 820 692
Taxation (expense)/income	72 248 404	(20 988 270)
Profit after taxation for the period	128 697 848	57 832 422
<b>Total comprehensive income for the period</b>	<b>128 697 848</b>	<b>57 832 422</b>

\* Dangote Cement South Africa Proprietary Limited has a December year-end to align with Dangote Cement PLC's year-end. In line with the requirements of IAS 28, the year-end results of Dangote Cement South Africa Proprietary Limited as at 31 December 2018 have been included in these financial statements.

## 7. SEGMENT INFORMATION

	Ready-mixed concrete	Head office	Group totals
<b>2019</b>			
Segment revenue – external revenue	835 823 569	-	835 823 569
Segment cost of sales	(515 275 407)	-	(515 275 407)
Segment expenses	(285 895 661)	(22 956 416)	(308 852 077)
Profit from equity-accounted investment	-	46 331 599	46 331 599
Profit on sale of property, plant and equipment	386 248	-	386 248
Segment profit/(loss) after taxation	21 530 240	22 510 366	44 040 606
Taxation	(3 672 142)	642 331	(3 029 811)
Interest received	2 530 952	1 459	2 532 411
Interest paid	(16 303 589)	(185 506)	(16 489 095)
Depreciation and amortisation	(13 214 303)	(2 347 562)	(15 561 865)
Segment assets	251 252 272	1 068 046 779	1 319 299 051
Investment in associate included in the above total segment assets	-	812 201 874	812 201 874
Capital expenditure included in segment assets	19 827 063	117 963	19 945 026
Segment liabilities	(225 638 902)	(8 336 472)	(233 975 374)
<b>2018</b>			
Segment revenue – external revenue	830 686 042	-	830 686 042
Segment cost of sales	(488 756 744)	-	(488 756 744)
Segment expenses	(267 054 964)	(25 279 345)	(292 334 309)
Profit from equity-accounted investment	-	20 819 672	20 819 672
Profit on sale of property, plant and equipment	1 930 319	-	1 930 319
Segment profit/(loss) after taxation	48 013 015	(3 845 993)	44 167 022
Taxation	(14 339 915)	642 331	(13 697 584)
Interest received	4 747 855	1 336	4 749 191
Interest paid	(22 002 128)	(29 987)	(22 032 115)
Depreciation and amortisation	(11 591 223)	(2 366 354)	(13 957 577)
Segment assets	285 141 373	1 021 934 224	1 307 075 597
Investment in associate included in above total segment assets	-	765 870 275	765 870 275
Capital expenditure included in segment assets	14 891 968	23 390	14 915 358
Segment liabilities	(267 423 681)	(4 253 530)	(271 677 211)

The only commodity actively managed by Métier is ready-mixed concrete.

The group does not rely on any single external customer or group of entities under common control for 10% or more of the group's revenue.

SepCem is an associate of SepHold. No segment report has been presented for cement (the commodity) as the amounts attributable to cement (the commodity) have been included in the head office segment.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 8. NET ASSET VALUE PER SHARE AND EARNINGS PER SHARE

### Net asset value and tangible net asset value per share

	GROUP	
	2019 R	2018 R
Total assets	1 319 299 051	1 307 075 597
Total liabilities	(233 975 374)	(271 677 211)
Net asset value attributable to equity holders of parent	1 085 323 677	1 035 398 386
Goodwill	(223 421 981)	(223 421 981)
Intangible assets	(573 510)	(2 867 551)
Deferred tax raised on intangible assets	160 583	802 914
Tangible net asset value	861 488 769	809 911 769
Shares in issue	208 216 175	206 342 821
Net asset value per share (cents)	521,25	501,79
Tangible net asset value per share (cents)	413,75	392,51
Earnings, diluted earnings and headline earnings per share		
<b>Reconciliation of basic earnings to diluted earnings and headline earnings:</b>		
Basic profit and diluted profit from total operations attributable to equity holders of parent	44 040 606	44 167 022
(Profit)/loss on sale of property, plant and equipment	(386 248)	(1 930 319)
Total taxation effect of adjustments	108 150	540 489
Headline earnings and diluted headline earnings attributable to equity holders of parent	43 762 508	42 777 192
Basic weighted average number of shares	207 610 543	204 431 259
Dilutive effect of share options	261 498	1 089 107
Diluted weighted average number of shares	207 872 041	205 520 366
Basic earnings per share (cents)	21,21	21,60
Diluted earnings per share (cents)	21,19	21,49
Headline earnings per share (cents)	21,08	20,92
Diluted headline earnings per share (cents)	21,05	20,81

## 9. PROPERTY, PLANT AND EQUIPMENT

	GROUP					
	Cost/ valuation R	2019 Accumulated depreciation R	Carrying value R	Cost/ valuation R	2018 Accumulated depreciation R	Carrying value R
Land	6 736 296	-	6 736 296	6 736 296	-	6 736 296
Buildings	14 433 910	-	14 433 910	14 357 537	-	14 357 537
Plant and machinery	104 028 558	(42 816 497)	61 212 061	92 108 297	(38 111 520)	53 996 777
Furniture and fixtures	1 004 537	(698 840)	305 697	968 981	(593 365)	375 616
Motor vehicles	160 496 265	(97 126 349)	63 369 916	165 953 182	(98 409 517)	67 543 665
Office equipment	24 966	(19 278)	5 688	24 966	(14 285)	10 681
Computer equipment	4 077 141	(3 080 918)	996 223	3 349 821	(2 705 283)	644 538
<b>Total</b>	<b>290 801 673</b>	<b>(143 741 882)</b>	<b>147 059 791</b>	<b>283 499 080</b>	<b>(139 833 970)</b>	<b>143 665 110</b>

Reconciliation of property, plant and equipment	GROUP				
	Opening balance R	Additions R	Disposals R	Depreciation R	Total R
<b>2019</b>					
Land	6 736 296	-	-	-	6 736 296
Buildings	14 357 537	76 373	-	-	14 433 910
Plant and machinery	53 996 777	12 008 167	(66 532)	(4 726 351)	61 212 061
Furniture and fixtures	375 616	35 556	-	(105 475)	305 697
Motor vehicles	67 543 665	6 948 743	(3 210 854)	(7 911 638)	63 369 916
Office equipment	10 681	-	-	(4 993)	5 688
Computer equipment	644 538	876 187	(5 134)	(519 368)	996 223
	<b>143 665 110</b>	<b>19 945 026</b>	<b>(3 282 520)</b>	<b>(13 267 825)</b>	<b>147 059 791</b>
<b>2018</b>					
Land	6 736 296	-	-	-	6 736 296
Buildings	14 357 537	-	-	-	14 357 537
Plant and machinery	54 382 544	3 760 730	-	(4 146 497)	53 996 777
Furniture and fixtures	303 076	181 758	-	(109 218)	375 616
Motor vehicles	66 325 391	10 643 720	(2 384 540)	(7 040 906)	67 543 665
Office equipment	15 674	-	-	(4 993)	10 681
Computer equipment	677 311	329 150	-	(361 923)	644 538
	<b>142 797 829</b>	<b>14 915 358</b>	<b>(2 384 540)</b>	<b>(11 663 537)</b>	<b>143 665 110</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 9. PROPERTY, PLANT AND EQUIPMENT (continued)

Construction of the building (for the property included in the financial statements at a carrying value of R14 433 910 as at 31 March 2019), was completed during FY 2017. There is additional expenditure for the financial year of R76 373 (2018: Rnil). The residual value of the building is considered to be in excess of the cost thereof, as such no depreciation has been processed on the building.

### Pledged as security

All movable assets are pledged as security for other financial liabilities as per note 16. Land and buildings of R18 503 897 (2018: R18 427 252) are pledged as security for the R2 million Absa overdraft facility of SepHold.

	GROUP	
	2019 R	2018 R
<b>Details of land and buildings</b>		
<b>Portion 0 of Erf 233, Phoenix Industrial Park</b>		
- Purchase price: 12 June 2009	2 400 000	2 400 000
- Capitalised expenditure	266 309	266 309
	<b>2 666 309</b>	2 666 309
<b>Erf 398 Randjespark Ext 121</b>		
- Purchase price: 10 December 2013	4 017 750	4 017 750
- Capitalised expenditure (land)	52 237	52 237
- Capitalised expenditure (building)	14 433 910	14 357 537
	<b>18 503 897</b>	18 427 524

## 10. TRADE AND OTHER RECEIVABLES

	GROUP	
	2019 R	2018 R
<b>Financial instruments</b>		
Trade receivables	98 546 425	130 888 707
Deposits	1 720 152	1 742 749
<b>Non-financial instruments</b>		
Prepayments	539 175	648 797
Value added taxation	43 255	51 261
	<b>100 849 007</b>	<b>133 331 514</b>

All amounts are short term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

### Trade and other receivables pledged as security

Trade and other receivables of Métier of R100 633 583 (2018: R133 005 263) are pledged as security for other financial liabilities as per note 6.

### Exposure to credit risk

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

In order to mitigate the risk of financial loss from defaults, the company only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are also obtained when appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. These models make use of information submitted by the customers as well as external bureau data (where available). Customer credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of customers are continuously monitored.

Insurance of debtors was obtained from CGIC during the current financial year and contributed favourably in the assessment of credit risk exposure under IFRS 9.

A loss allowance is recognised for all trade receivables in accordance with IFRS 9 *Financial Instruments*, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The company measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. The expected credit loss was reached after taking into account the fact that the debtors are insured. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

The estimation techniques explained have been applied for the first time in the current financial period as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows.

The company's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 10. TRADE AND OTHER RECEIVABLES (continued)

	GROUP					Total R
	Current R	More than 30 days past due R	More than 60 days past due R	More than 90 days past due R	More than 120 days past due R	
<b>At 31 March 2019 the lifetime expected credit loss provision for trade receivables is as follows:</b>						
Gross carrying amount	67 158 551	26 785 468	1 865 894	772 420	3 609 164	100 191 496
Less: Insured debtors	42 186 182	23 012 122	724 284	263 659	168 693	66 354 940
Gross carrying value uninsured trade receivables	24 972 369	3 773 346	1 141 609	508 761	3 440 471	33 836 556
Less: Specific allowance	-	-	-	-	1 189 051	1 189 051
	24 972 369	3 773 346	1 141 609	508 761	2 251 420	32 647 505
Expected credit loss rate	0,48%	0,89%	4,11%	9,38%	14,02%	
Lifetime expected credit loss (excluding value added taxation)	104 232	29 202	40 800	41 497	274 478	490 209
Total expected credit loss (including specific allowance)						1 679 260
<b>As at 1 April 2018 the expected credit loss provision for lifetime trade receivables is as follows:</b>						
Gross carrying amount*	80 532 323	35 035 888	6 895 340	4 035 728	10 389 428	136 888 707
Less: Specific allowance	-	-	-	-	4 023 884	4 023 884
	80 532 323	35 035 888	6 895 340	4 035 728	6 365 544	132 864 823
Expected credit loss rate	0,18%	0,34%	1,58%	3,61%	5,39%	
Lifetime expected credit loss (excluding value added taxation)	339 083	273 526	248 595	332 062	782 850	1 976 116
Total expected credit loss (including specific allowance)						6 000 000

\* During the prior year, none of the trade receivables were insured. Due to the introduction of credit insurance in the current year only uninsured debtors were considered for the expected credit loss provision. The expected credit loss provision rate increased year on year due to the deterioration of the economy but this was balanced by the insurance cover.

## 10. TRADE AND OTHER RECEIVABLES (continued)

### Credit risk disclosure for comparatives under IAS 39

The following sections provide comparative information for trade and other receivables which have not been restated. The information is provided in accordance with IAS 39 *Financial instruments: Recognition and Measurement*.

### Credit quality of trade and other receivables

Management has made an assessment of the debts neither past due nor impaired and are satisfied with the credit quality of these debtors, as all such debts are expected to be recovered without default. The credit quality of trade and other receivables can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### Trade and other receivables past due but not impaired

Trade and other receivables which are less than three months past due are not considered to be impaired.

At 31 March 2019, R32 857 169 (2018: R15 320 496) was past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	GROUP	
	2019 R	2018 R
One month past due	26 609 692	6 895 340
Two months past due	1 865 894	4 035 728
Three months past due	772 420	3 049 649
More than three months past due	3 609 164	1 339 779

Subsequent to the reporting date, R24 986 942 of the amounts one month past due, R818 691 of the amounts two months past due, R688 331 of the amounts three months past due and R746 982 of the amounts more than three months past due have been collected. After taking the subsequent receipts into account, R5 612 786 is still outstanding in the past due not impaired category. An amount of R1 679 260 has been raised as an expected credit loss allowance based on the simplified method in terms of IFRS 9. These amounts have not been impaired as management has received sufficient security from debtors in the form of personal sureties, cessions of book debt, cessions of retentions, company cross-guarantees and surety bond over a property over and above the cover introduced through CGIC.

### Trade and other receivables – allowance for impairment

As at 31 March 2019, trade and other receivables of R1 679 260 (2018: R6 000 000) were provided for.

	GROUP	
	2019 R	2018 R
<b>Reconciliation of allowance for impairment of trade and other receivables</b>		
Opening balance	6 000 000	1 000 000
Amounts written off as uncollectible	(4 594 014)	-
Provision for impairment	273 274	5 000 000
<b>Closing balance</b>	<b>1 679 260</b>	<b>6 000 000</b>

### Fair value of trade and other receivables

The fair value of trade and other receivables approximates their carrying amounts.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 11. TRADE AND OTHER PAYABLES

	GROUP	
	2019 R	2018 R
<b>Financial instruments</b>		
Trade payables	60 078 529	62 100 899
Credit cards	10 569	9 370
Other payables	1 468 327	-
Accrued expenses	3 870 580	4 106 961
Sundry suppliers	1 114 591	646 436
Accrued audit fees	445 000	405 000
<b>Non-financial instruments</b>		
Accrual for salary-related expenses	196 103	341 359
Accrued bonus	1 782 196	1 648 121
Deposits received	10 559 161	5 249 379
Value added taxation	571 211	1 684 706
	<b>80 096 267</b>	<b>76 192 231</b>

### Fair value of trade and other payables

The fair values of trade and other payables are substantially the same as the carrying amounts reflected on the statement of financial position, as the financial instruments are short term in nature.

## 12. CASH AND CASH EQUIVALENTS

	GROUP	
	2019 R	2018 R
Cash and cash equivalents consist of:		
Cash on hand	114 000	101 500
Bank balances	2 709 868	10 408 669
Bank overdraft	(4 730 432)	(6 695 456)
	<b>(1 906 564)</b>	<b>3 814 713</b>
Current assets	<b>2 823 868</b>	<b>10 510 169</b>
Current liabilities	<b>(4 730 432)</b>	<b>(6 695 456)</b>
	<b>(1 906 564)</b>	<b>3 814 713</b>

The fair values of cash and cash equivalents are considered to be equal to the carrying value.

SepHold has an available overdraft facility of R12 000 000 (Nedbank: R10 000 000 and Absa: R2 000 000). Métier has an available Standard Bank overdraft facility and a general short-term banking facility of R21 990 000.

	GROUP	
	2019 R	2018 R
The total amount of undrawn overdraft and term loan facilities available for future operating activities and commitments	<b>27 259 523</b>	<b>17 294 544</b>

Credit facilities are secured as per note 16.

### 13. INTANGIBLE ASSET

	GROUP					
	2019			2018		
	Cost/ valuation R	Accumulated amortisation R	Carrying value R	Cost/ valuation R	Accumulated amortisation R	Carrying value R
Customer contract	20 438 713	(19 865 203)	573 510	20 438 713	(17 571 162)	2 867 551
<b>Reconciliation of intangible asset</b>				<b>Opening balance R</b>	<b>Amortisation R</b>	<b>Total R</b>
<b>2019</b>						
Customer contract				2 867 551	(2 294 041)	573 510
<b>2018</b>						
Customer contract				5 161 591	(2 294 040)	2 867 551

#### Amortisation and change in accounting estimate

The carrying value of the intangible asset was amortised over the 27 months that was remaining of the eight-year extended contract period during the prior year. The remaining period of amortisation at year-end is three months.

#### Impairment testing

No indications of impairment were identified and therefore no impairment testing was performed for the current financial year.

### 14. FINANCIAL ASSETS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	GROUP			
	Assets at amortised cost R	Assets at fair value R	Non-financial instruments* R	Total R
<b>2019</b>				
Other financial assets	10 918 381	-	-	10 918 381
Trade and other receivables	100 266 577	-	582 430	100 849 007
Cash and cash equivalents	2 823 868	-	-	2 823 868
Other investments	-	2 000 000	-	2 000 000
	<b>114 008 826</b>	<b>2 000 000</b>	<b>582 430</b>	<b>116 591 256</b>
<b>2018</b>				
Other financial assets		8 459 008	-	8 459 008
Trade and other receivables		132 631 456	700 058	133 331 514
Cash and cash equivalents		10 510 169	-	10 510 169
Long-term loans		2 000 000	-	2 000 000
		<b>153 600 633</b>	<b>700 058</b>	<b>154 300 691</b>

\* Non-financial instruments of the group consist of prepayments of R539 175 (2018: R648 797) and value added taxation of R43 255 (2018: R51 261).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 15. FINANCIAL LIABILITIES BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

	GROUP		
	Financial liabilities at amortised cost R	Non-financial instruments* R	Total R
<b>2019</b>			
Other financial liabilities	121 735 666	-	121 735 666
Trade and other payables	66 987 596	13 108 671	80 096 267
Bank overdraft	4 730 432	-	4 730 432
	<b>193 453 694</b>	<b>13 108 671</b>	<b>206 562 365</b>
<b>2018</b>			
Other financial liabilities	161 135 021	-	161 135 021
Trade and other payables	67 268 666	8 923 565	76 192 231
Bank overdraft	6 695 456	-	6 695 456
	<b>235 099 143</b>	<b>8 923 565</b>	<b>244 022 708</b>

\* Non-financial instruments for the group consist of an accrued bonus of R1 782 196 (2018: R1 648 121), value added taxation of R571 211 (2018: R1 684 706), deposits received of R10 559 161 (2018: R5 249 379) and accrual for salary-related expenses of R196 103 (2018: R341 359).

## 16. OTHER FINANCIAL LIABILITIES

	GROUP	
	2019 R	2018 R
<b>Held at amortised cost</b>		
<i>Standard Bank – Facility A</i>	<b>81 466 301</b>	81 720 277
This loan bears interest at the variable JIBAR plus a margin of 4%, which is currently 11,15% and is repayable in varying instalments with the final payment being made 15 April 2020. Interest payments are made quarterly in arrears.		
<i>Standard Bank – Facility B</i>	<b>40 721 110</b>	80 408 582
This loan bears interest at the variable JIBAR plus a margin of 3,49%, which is currently 10,475% and is repayable in variable instalments with the final payment being made 15 April 2020. The instalments are repayable monthly over a period of three years and include payments of the interest and capital portions.		
<b>Capitalised transaction costs</b>	<b>(451 745)</b>	(993 838)
Transaction costs of the above loans are capitalised and released to operating expenses over the term of the loan.		
	<b>121 735 666</b>	161 135 021

## 16. OTHER FINANCIAL LIABILITIES (continued)

The Standard Bank loans are secured as follows:

- General notarial bond granted by Métier in favour of the debt guarantor over all its movable assets, including inventory;
- Pledge and cession by SepHold in favour of the debt guarantor, in which SepHold, *inter alia*, pledges and cedes *in securitatem debiti* to the debt guarantor all its shares in and claims against the borrower;
- Cession of insurances by Métier in favour of the debt guarantor, in terms of which Métier Mixed Concrete Proprietary Limited cedes *in securitatem debiti* to the debt guarantor its right, title and interest in and to all insurances over its assets;
- Cession of debts by Métier in favour of the debt guarantor, in terms of which Métier cedes *in securitatem debiti* to the debt guarantor, its right, title and interest in and to all of its debtors;
- Special notarial bond by Métier in favour of the debt guarantor over specified movable assets; and
- The deed of security over the domain name www.metiersa.co.za entered into between Métier (as cedent) and the debt guarantor (as cessionary) and any notices or acknowledgements required thereunder, in terms of which Métier cedes *in securitatem debiti* to the debt guarantor its right, title and interest in and to the domain name.

Total term lending facilities are R120 721 110 (2018: R180 408 582).

	GROUP	
	2019 R	2018 R
<b>Non-current liabilities</b>		
At amortised cost	81 014 556	121 353 224
<b>Current liabilities</b>		
At amortised cost	40 721 110	39 781 797
	<b>121 735 666</b>	<b>161 135 021</b>

The fair values of these financial liabilities are substantially the same as the carrying amounts reflected on the statement of financial position as they bear interest at market-related rates.

## 17. FINANCE COSTS

	GROUP	
	2019 R	2018 R
Bank	177 807	29 987
Late payment of tax	-	2 281
Other financial liabilities	15 481 078	21 457 754
Capitalised transaction costs	542 093	542 093
	<b>16 200 978</b>	<b>22 032 115</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 18. GOODWILL

	GROUP					
	2019			2018		
	Cost R	Accumulated impairment R	Carrying value R	Cost R	Accumulated impairment R	Carrying value R
Goodwill on acquisition of subsidiary	223 421 981	-	223 421 981	223 421 981	-	223 421 981
<b>Reconciliation of goodwill</b>					<b>Opening balance R</b>	<b>Total R</b>
<b>2019</b>						
Goodwill				223 421 981		223 421 981
<b>2018</b>						
Goodwill				223 421 981		223 421 981

### Impairment testing

In accordance with IAS 36 *Impairment of Assets*, goodwill is reviewed annually for impairment, or more frequently if there is an indication that goodwill might be impaired. The decline in profitability of Metier over the last two years focused the attention on the Goodwill assessment. Management believes that trading results are representative of the cycle in which construction and a number of other industries currently find themselves in. It is also envisaged that this might still continue for a period of up to 18 months. Based on this a three year forward looking model was used in assessing the current position. The company assets and key employees are all well positioned to return to prior levels of turnover and profitability once the cycle recovers.

Based on the results of the impairment test performed, no impairment is required. Refer to accounting policy 1.2 *Impairment testing of goodwill* and investments in subsidiaries for inputs used for the impairment test.

## 19. TAXATION

	GROUP	
	2019 R	2018 R
<b>Major components of the taxation expense</b>		
<b>Current</b>		
Local income taxation – current period	2 280 244	12 371 189
<b>Deferred</b>		
Originating and reversing temporary differences	749 567	1 326 395
	<b>3 029 811</b>	<b>13 697 584</b>
<b>Reconciliation of the taxation expense</b>		
Reconciliation between accounting profit and taxation expense		
Profit/(loss) before taxation	47 070 417	57 864 606
Taxation at the applicable taxation rate of 28%	13 179 717	16 202 090
<b>Taxation effect of adjustments on taxable income</b>		
Non-deductible items and exempt income	(34 456)	10 677
Taxable temporary difference not recognised as deferred tax liability	(195 496)	(173 872)
Deferred taxation not raised on assessed taxation loss	2 371 192	2 694 588
Profit from equity-accounted investments	(12 972 849)	(5 829 508)
Fines	8 775	3 345
Donations	59 862	30 448
Government grant	(189 808)	(189 808)
Share options	651 088	797 838
Capitalised finance and transaction costs	151 786	151 786
	<b>3 029 811</b>	<b>13 697 584</b>

No provision has been made by the company for 2019 or 2018 taxation as the company has no taxable income. The estimated taxation loss available for set-off against future taxable income for the company is R117 244 927 (2018: R108 776 384).

## 20. TAXATION PAID

	GROUP	
	2019 R	2018 R
Balance at the beginning of the year	(307 491)	(408 615)
Current taxation for the period recognised in profit or loss	(2 280 244)	(12 371 189)
Balance at the end of the period	(1 175 731)	307 491
	<b>(3 763 466)</b>	<b>(12 472 313)</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 21. JOINT ARRANGEMENTS

### Joint ventures

The following table lists all of the joint ventures in the group:

Name of company	GROUP			
	% ownership interest 2019	% ownership interest 2018	Carrying amount 2019 R	Carrying amount 2018 R
Cato Ridge Quarry Proprietary Limited	50,00	50,00	120 552	120 552

SepHold, on behalf of the group, entered into a joint venture agreement during the prior year. Umhlali Quarry Proprietary Limited transferred 50% of its interest in Cato Ridge Quarry Proprietary Limited as per the signed quarry agreement. The percentage ownership interest is equal to the percentage voting rights in this case. There were no additional costs incurred during the year under review.

## 22. RISK MANAGEMENT

### Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

The capital structure of the group consists of cash and cash equivalents disclosed in note 3, borrowings disclosed in note 16 and equity disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the group manages as capital, the strategy for capital maintenance, or externally imposed capital requirements from the previous year.

### Liquidity risk

The group's risk to liquidity is a result of the funds available to cover future commitments. The group manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The tables that follow analyse the group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	GROUP	
	Less than one year R	Between one and two years R
<b>2019</b>		
Other financial liabilities	50 327 445	81 834 460
Trade and other payables	66 987 596	-
Bank overdraft	4 730 432	-
<b>2018</b>		
Other financial liabilities	55 471 999	131 328 293
Trade and other payables	67 268 666	-
Bank overdraft	6 695 456	-

## 22. RISK MANAGEMENT (continued)

### Interest rate risk

The company and group are exposed to interest rate risk through their variable rate cash balances, as well as their other financial liabilities. Surplus cash flows exposed to interest rate risk are placed with institutions and facilities which yield the highest rate of return.

An interest rate sensitivity analysis is set out below. The analysis indicates the financial assets and liabilities which are sensitive to interest rate fluctuations and the profit or loss and taxation effects of possible changes in interest rates to which the financial assets are linked.

At 31 March 2019, if interest rates on cash and cash equivalents had been 1% higher/lower with all other variables held constant, pretaxation profit of the group for the year would have been R225 368 (2018: R614 617) higher/lower, mainly as a result of higher/lower interest income on funds invested on call. The resulting taxation effect would have been R63 103 (2018: R172 093).

At 31 March 2019, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, pretaxation profit of the group would have been R1 576 920 (2018: R2 199 985) lower/higher, as a result of higher/lower interest expense on floating rate borrowings. The resulting taxation effect would have been R441 537 (2018: R615 996).

### Cash flow interest rate risk

Financial instrument	Current interest rate %	Due in less than a year R	Due in one to two years R
Cash in current banking institutions	5,00	2 710 838	-
Overdraft facilities used	10,00	4 730 432	-
Floating rate financial liabilities – Facility A	11,15	-	80 000 000
Floating rate financial liabilities – Facility B	10,48	40 721 109	-

### Credit risk

Credit risk is managed on a group basis. Credit risk consists of cash deposits, cash equivalents, other financial assets, trade and loans receivable, loan commitments and financial guarantees. The company only deposits cash with major banks with high-quality credit standing and limits exposure to any one counterparty.

The credit risk is managed on a group basis based on the group's credit risk management policies and procedures. Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 22. RISK MANAGEMENT (continued)

### Credit risk (continued)

Credit risk for exposures other than those arising on cash and cash equivalents are managed by making use of credit approvals, limits and monitoring. The company only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Trade receivables consist of a large number of customers in various industries. Due to a number of hardships experience in the construction industry over the last year management increased its risk management efforts on trade receivables by obtaining risk cover from CGIC for insurable customers.

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determines whether the loss allowances should be calculated on a 12-month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12-month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management applies the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12-month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management considers information such as payment history to date, industry in which the customer is employed, period for which the customer has been employed, external credit references, etc.

In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account. Trade receivable and contract assets which do not contain a significant financing component are the exceptions and are discussed below.

For trade receivables and contract assets which do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses of the instruments. For all other trade receivables, IFRS 9 permits the determination of the credit loss allowance by either determining whether there was a significant increase in credit risk since initial recognition or by always making use of lifetime expected credit losses. Management has chosen to make use of lifetime expected credit losses as an accounting policy. Management does therefore not make the annual assessment of whether the credit risk has increased significantly since initial recognition for trade receivables, contract assets or lease receivables.

## 22. RISK MANAGEMENT (continued)

### Credit risk (continued)

The maximum exposure to credit risk is presented in the table below:

	2019			2018		
	Gross carrying amount R	Credit loss allowance R	Amortised cost/fair value R	Gross carrying amount R	Credit loss allowance R	Amortised cost/fair value R
Trade and other receivables	100 849 007	(1 679 260)	99 170 747	133 331 514	(6 000 000)	127 331 514
Cash and cash equivalents	2 823 868	-	2 823 868	10 510 169	-	10 510 169
	<b>103 672 875</b>	<b>(1 679 260)</b>	<b>101 994 615</b>	<b>143 841 683</b>	<b>(6 000 000)</b>	<b>137 841 683</b>

The carrying amount of financial assets represents the maximum exposure to credit risk.

Financial assets exposed to credit risk are as follows:

Financial instrument	GROUP	
	2019 R	2018 R
Other financial assets	10 918 381	8 459 008
Trade and other receivables	96 911 756	130 888 707
Cash and cash equivalents	2 824 838	10 510 169
Long-term loans	-	2 000 000

## 23. STATED CAPITAL

	GROUP	
	2019 R	2018 R
<b>Authorised</b>		
1 000 000 000 ordinary shares with no par value		
<b>Issued – ordinary shares with no par value</b>		
206 342 821 (2018: 202 969 487) shares at the beginning of the period	644 443 723	635 403 188
1 873 354 (2018: 3 373 334) shares issued during the period	3 559 372	9 040 535
<b>208 216 175 (2018: 206 342 821) shares at the end of the period</b>	<b>648 003 095</b>	<b>644 443 723</b>

The total number of 1 873 354 shares for a value of R1,90 issued during the current year was related to share options. A total number of 2 294 551 shares issued during the prior year at a value of R2,68 for a cash amount of R6 149 397 relates to share options that were exercised by employees and directors. Of the issued share capital, a number of 2 582 200 shares relate to unsold exercised shares at a value of R1,90 (1 873 354 shares) and R2,68 (708 846 shares).

The unissued ordinary shares are under the control of the directors.

## 24. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2019

## 25. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of any material fact or circumstance arising between the end of the financial year and the date of this report that would require adjustments to or disclosure in the annual financial statements.

## 26. CHANGES TO THE BOARD

Mr. PM Makwana resigned from his position as an independent non-executive director and member of the audit and risk committee with effect from 1 October 2018. He was a board member for five years and nine months. Mr. Makwana's resignation followed an appointment as a non-executive director and chairperson of another board which will require a significant proportion of his time.

On 12 November 2018 and 30 November 2018 Ms Rose Raisibe Matjiu and Mr. Kenneth Capes resigned from the board as non-executive director and executive director respectively. Kenneth will continue to consult to the group on business development matters as and when required.

## 27. COMPANY SECRETARY

There were no changes to the Company Secretary during the interim reporting period under review.

## AUDITORS' REPORT

The summarised financial information included in this announcement is extracted from audited information but is not itself audited. The full annual financial statements are available on the company website. [www.sephakuholdings.com](http://www.sephakuholdings.com)

The directors take full responsibility for the preparation of the summarised financial information and that it has been correctly extracted from the underlying annual financial statements.

The underlying financial statements have been audited by the group's external auditors, BDO South Africa Incorporated. A copy of their unqualified report, as well as the annual financial statements, are available for inspection at the company's registered office.

The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the company's registered office.

Any reference to operational or future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

The auditors' report does not necessarily cover all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditors' work, they should obtain a copy of that report together with the accompanying financial information from the registered office of the company.

By order of the board

**NR Crafford-Lazarus**  
*Financial director*

**Dr L Mohuba**  
*Chief executive officer*

**Sakhile Ndlovu**  
Investor relations officer  
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QuestCo Corporate Advisory Proprietary Limited  
Telephone: +27 11 011 9200

Centurion, South Africa  
25 June 2019

# CORPORATE INFORMATION

Directors	B Williams <sup>°</sup> (chairman) MJ Janse van Rensburg <sup>°</sup> B Bulo <sup>°</sup> MM Ngoasheng <sup>°</sup> PF Fourie <sup>^</sup> Dr L Mohuba* (chief executive officer) NR Crafford-Lazarus* (financial director) <i>*Executive °Independent ^Non-executive</i>
Company secretary	Acorim Proprietary Limited 13th Floor, Illovo Point, 68 Melville Rd, Illovo, Sandton, 2196 Telephone: +27 11 325 6363
Registered office	Southdowns Office Park First floor, Block A Corner Karee and John Vorster Streets Irene, X54, 0062 Telephone: +27 12 612 0210
Transfer secretaries	Computershare Investor Services Proprietary Limited Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 PO Box 61051, Marshalltown, 2107, South Africa Telephone: +27 11 370 5000

## ABOUT SEPHAKU HOLDINGS LIMITED

Sephaku Holdings Limited is a building and construction materials company with a portfolio of investments in the cement and mixed concrete sectors in South Africa. The company's core investments are a 36% stake in Dangote Cement South Africa (Pty) Ltd and 100% in Métier Mixed Concrete (Pty) Ltd. SepHold's strategy is to generate income and realise value for shareholders through the production of cement and ready mixed concrete in Southern Africa.

[www.sephakuholdings.com](http://www.sephakuholdings.com)





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