CSG

LINKING PEOPLE WITH
SERVICE EXCELLENCE

2020
REVIEWED PROVISIONAL CONDENSED CONSOLIDATED RESULTS
for the year ended 31 March

Commentary

CSG Holdings Limited (CSG) Group is a multi-disciplinary support services group offering a wide range of services in facilities, security and risk solutions, and staffing services in Southern Africa to an array of clients across a multitude of sectors/industries. At the core is good corporate governance combined with an innovative and adaptive corporate culture, sound knowledge and proven experience, underpinned by solid financial backing.

CSG's mission is to be a leading strategic outsourced partner of choice for staffing solutions, facilities management and security in Southern Africa. We have consolidated and increased our basket of services offered to clients. Our strategy continues to focus on growing into service delivery that is more technology based, and has successfully resulted in CSG providing a full suite of integrated security services as part of our integrated facilities management service.

Our strategic partnership with our B-BBEE partners continues to add valuable access to their expertise and experience, and ensures that our 30% B-BBEE shareholding is maintained.

Financial performance

The CSG Group's revenue from continuing operations was R1,75 billion generating an operating profit of R26,70 million.

Cash generated by operations increased by 79% to R133,58 million while cash generated by continuing operations increased by 74% to R164,61 million for the year ended 31 March 2020.

The CSG Group's performance reflected a combination of the current challenging business environment and the impact of the COVID-19 pandemic (accounting of future credit losses and impairments). The security division remains a challenge.

An industry experienced CEO was appointed to head the security division, with effect from 1 August 2019, and he, together with a senior team, has implemented an aggressive turnaround plan for the underperforming security companies. Despite an improved performance in the second half of the financial year, 7Arrows Security Proprietary Limited (7Arrows) again made a loss for the full financial year. The board, after due consideration and as a result of the continuous losses despite the aggressive turnaround plan implemented, made the decision to sell the 7Arrows business and entered into an agreement with Fidelity ADT Monitoring Proprietary Limited. As a result, CSG will dispose of a specified part of the armed response and monitoring business of 7Arrows, together with a specified part of the residential guarding business, for a consideration of R65,85 million with the effective date anticipated to be 1 September 2020.

The full 7Arrows business has been classified as discontinued operations in the financial statements (refer note 13).

Basic loss per share from continuing operations improved mainly as a result of the recognition of a smaller impairment of goodwill in 2020 relating to the COVID-19 pandemic, in comparison to the impairment of R200 million recorded in the prior year relating to the poor performance of the security division.

Headline earnings per share deteriorated to a loss due to the weaker performance across all three divisions, worsened by the poor performance of 7Arrows and Revert Risk Management in the security division and the accounting of additional future credit losses resulting from the COVID-19 pandemic.

Divisional review

CSG Facilities

The division revenue decreased by 14% to R666,20 million, contributing R28,72 million to the group's operating profit. The decline in performance resulted from pressure on margins and the loss or ending of three significant contracts. The greenfield project, CSG Hygiene, is performing above expectation and delivered only a minor negative impact on earnings. This division has a healthy sales pipeline.

CSG Security

The division reported a 12% improvement in revenue from continuing operations of R332,39 million, but incurred an operating loss of R6,67 million.

Pressure on consumer spending and the increases in fuel prices had a significant impact on this sector.

An in-depth review of the operating performance of Revert Risk Management was worse than anticipated. Immediate action was taken to rationalise and consolidate this business, which included retrenchments across the board. The retrenchment costs were accounted for during the period under review and a significant expected credit loss was recognised in the current year as a result of COVID-19.

Despite a reduction in the loss incurred by 7Arrows in the second half of the year, the board agreed to the sale of this business and has disclosed the full operation as a discontinued operation (refer note 13).

The centralised control room made an operational loss of R4,30 million during the period, however, has a promising pipeline, the benefit of which is expected to flow through in the 2020/2021 financial year.

CSG People

The division's revenue decreased by 19% to R752,69 million, contributing R24,37 million to the group's operating profit. Overall performance was substantially lower than the previous period due to the completion of a large contract, an increase in the expected credit loss allowance as well as a lower demand for temporary employees due to the current economic climate and smaller maintenance shutdowns by major clients.

COVID-19 pandemic

On 15 March 2020, the President of South Africa declared the COVID-19 pandemic a national disaster and announced several extraordinary measures to combat the grave public health emergency, He further announced a national lockdown on 23 March 2020 to curb the spread of COVID-19. The national extended lockdown implemented by the South African government due to the COVID-19 pandemic, has severely impacted the local economy as businesses are being forced to cease or limit operations for long or indefinite periods.

As a result of the COVID-19 pandemic, the group expects lower demand for services in the short term which will result in a decline of revenue. The group's focus during the lockdown shifted to preserving liquidity and cash flow. Various cost-saving measures were immediately implemented across all operations, including temporary reductions to all salaries, temporarily laying off of employees, and where possible, deferring non-essential capital expenditure and applying measures to optimise working capital.

In order to assist the affected employees, the Minister of Labour issued the COVID-19

Temporary Relief Scheme (TERS benefit), available to all businesses negatively impacted by COVID-19 to help companies continue to pay salaries/wages. The CSG Group applied for these TERS benefits and was able to pay the wages of all employees. Unfortunately, as noted in the media on 21 June 2020, an amount of R5,7 million intended for 1 400 workers of CSG Resourcing, was transferred by the UIF into a bank account which did not belong to CSG Resourcing. This matter was handed over to the National Prosecuting Authority, and, in the meantime, CSG Resourcing advanced the funds to workers.

The CSG board of directors has considered the impact of COVID-19 across the board in assessing future credit losses, impairments, taxation, going concern and other standards which required judgements. The board of directors has reviewed the group's financial position, existing borrowing facilities and cash on hand, and is satisfied that the group will continue as a going concern for the foreseeable future.

Outlook

Cleaning, hygiene, sanitising and security are currently essential services and CSG is well positioned to deliver these services. We expect that contingent staffing models will be popular going forward, increasing the demand for the services of our people division. CSG Foods is now fast-tracking the implementation of its centralised kitchen strategy which will help to expand its client base. CSG Skills is fast-tracking its online training strategy to capitalise on the high demand for hygiene, cleaning and workplace safety training.

During the year, we appointed a group business development executive to lead our aggressive organic growth strategy, ensuring that marketing and sales synergies between the various group companies are unlocked, as well as offering clients a total integrated outsourced solution.

The CSG Group is steadily becoming a competitive facility management player in the Southern African market, offering its basket of facilities' management services to more and larger clients. More opportunities are materialising where CSG can offer a one-stop service to its clients. A strong sales pipeline exists in most of the companies and is being consolidated at group level to emphasise the importance of internal support, experience and cross-selling opportunities.

The board and the executive team approved the 2025 strategy. This strategy is now being revised to incorporate the impact of COVID-19. It is the vision and commitment of the board and executive team to inspire and motivate the identified leaders of the group to achieve our targeted growth goals cohesively and dynamically.

The CSG Group is well positioned for growth as a result of its successful diversification strategy and through various growth initiatives being implemented, as well as new greenfield projects which are underway.

Dividends

The board decided to retain cash and reduce debt. In this financial year no dividend will be paid. This decision will be reassessed in future.

Provisional condensed consolidated statement of financial position

as at 31 March 2020

	Notes	Reviewed 2020 R'000	Audited 2019 R'000
Assets			
Non-current assets		**414 134**	396 030
Property, plant and equipment	8, 9	**41 452**	80 442
Right-of-use asset	8, 10	**64 859**	–
Intangible assets		**19 086**	18 957
Goodwill	7	**215 216**	244 601
Trade and other receivables	11	**–**	3 007
Loans to associates		**–**	916
Loans receivable		**34 982**	36 492
Deferred taxation	12	**38 539**	11 615
Current assets		**338 153**	473 584
Inventories		**11 341**	11 921
Current income tax receivable		**8 327**	10 728
Current portion of loans receivable		**14 590**	26 830
Trade and other receivables	11	**257 861**	366 922
Bank and call deposits		**46 034**	57 183
Assets in disposal group classified as held for sale	13	**–**	310
Total assets		**752 287**	869 924

Provisional condensed consolidated statement of financial position continued

as at 31 March 2020

	Notes	Reviewed 31 March 2020 R'000	Audited 31 March 2019 R'000
Equity and liabilities			
Capital and reserves		384 521	466 655
Stated capital	4.2	318 883	318 883
Treasury shares	4.1	(1 236)	(1 216)
Retained earnings		64 916	145 700
Foreign currency translation reserve		(5 671)	(9 726)
Non-controlling interest		7 629	13 014
Non-current liabilities		129 646	137 189
Interest-bearing liabilities	8	100 178	133 466
Lease liabilities	8, 10	24 236	–
Deferred taxation	12	5 232	3 723
Current liabilities		238 120	266 080
Current portion of interest-bearing liabilities	8	14 804	34 744
Current portion of lease liabilities	8, 10	29 359	–
Loans from associates		9 862	–
Current portion of borrowings		10 617	26 668
Bank overdrafts and invoice discounting		355	39 910
Trade and other payables		171 690	161 589
Trade payables and accruals		171 690	161 128
Current portion of contingent consideration	3	–	461
Current income tax payable		1 433	3 169
Total equity and liabilities		752 287	869 924
Shares in issue ('000)		521 288	521 288
Net asset value per share (cents)		72,30	87,02
Net tangible asset value per share (cents)		28,45	37,16

Provisional condensed consolidated statement of profit and loss and other comprehensive income

for the year ended 31 March 2020

	Notes	Reviewed 2020 R'000	Restated* Audited 2019 R'000
Continuing operations			
Revenue		1 751 275	1 995 023
Cost of sales		(1 427 114)	(1 615 191)
Gross profit		324 161	379 832
Net operating expenses		(297 457)	(291 109)
Operating profit		26 704	88 723
(Loss)/profit on sale of property, plant and equipment		(818)	1 070
Impairment of non-financial assets	7	(34 773)	(121 342)
Remeasurement of contingent consideration relating to business acquisition	3	–	(1 304)
Share of joint venture (loss)/profit		(10 778)	916
Investment income		9 077	8 580
Finance cost		(22 446)	(20 035)
Loss before taxation		(33 033)	(43 392)
Taxation		1 231	7 083
Loss from continuing operations		(31 802)	(36 309)
Discontinued operations	13	(47 438)	(107 566)
Loss for the year		(79 241)	(143 873)
Other comprehensive income		4 055	2 806
Total comprehensive loss		(75 186)	(141 068)
Loss for the year attributable to:			
Owners of the parent		(80 784)	(147 990)
Non-controlling interest		1 543	4 117
		(79 241)	(143 873)
Total comprehensive loss attributable to:			
Owners of the parent		(76 729)	(145 185)
Non-controlling interest		1 543	4 117
		(75 186)	(141 068)
Weighted average shares in issue ('000)		520 372	517 297
Diluted weighted average shares in issue ('000)		520 372	517 297

* *Restated as allowed by IFRS 5* Non-current Assets Held for Sale and Discontinued Operations *(refer note 12).*

Provisional condensed consolidated statement
of profit and loss and other comprehensive income continued

for the year ended 31 March 2020

	Reviewed 2020 R'000	Restated* Audited 2019 R'000
Loss per share attributable to the owners of the parent		
Basic loss per share (cents)	(15,52)	(28,61)
Diluted loss per share (cents)	(15,52)	(28,61)
Dividend per share (cents)	–	–
Loss per share from continuing operations		
Basic loss per share (cents)	(6,41)	(7,81)
Diluted loss per share (cents)	(6,41)	(7,81)
Loss per share from discontinued operations		
Basic loss per share (cents)	(9,11)	(20,80)
Diluted loss per share (cents)	(9,11)	(20,80)
Headline (loss)/earnings reconciliation		
Attributable loss	(80 784)	(147 991)
Loss/(profit) on sale of property, plant and equipment (after taxation)	659	(898)
Impairment on goodwill	34 599	86 513
Impairment on property, plant and equipment and intangible assets (after taxation)	332	88 195
Headline (loss)/earnings	(45 194)	25 818
Headline (loss)/earnings per share		
Basic headline (loss)/earnings per share (cents)	(8,69)	4,99
Diluted headline (loss)/earnings per share (cents)	(8,69)	4,99
Headline earnings reconciliation from continuing operations		
Attributable loss from continuing operations	(33 345)	(40 424)
Loss/(profit) on sale of property, plant and equipment (after taxation)	589	(772)
Impairment on goodwill	34 599	27 740
Impairment on property, plant and equipment and intangible assets (after taxation)	–	73 357
Headline earnings	1 842	59 901
Headline earnings per share from continuing operations		
Basic headline earnings per share (cents)	0,35	11,58
Diluted headline earnings per share (cents)	0,35	11,58
Headline loss per share from discontinued operations		
Basic headline loss per share (cents)	(9,04)	(6,59)
Diluted headline loss per share (cents)	(9,04)	(6,59)

* *Restated as allowed by IFRS 5* Non-current Assets Held for Sale and Discontinued Operations *(refer note 12).*

Provisional condensed consolidated statement
of cash flows

for the year ended 31 March 2020

	Notes	Reviewed 2020 R'000	Restated* Audited 2019 R'000
Cash flow from operations		128 257	47 773
Cash generated by operations		164 606	94 431
Investment income		4 319	2 787
Finance cost		–	(3 712)
Taxation paid		(9 472)	(26 037)
Cash flow from discontinued operations	13	(31 026)	(19 696)
Cash flow from investing activities		(8 448)	(19 023)
Net investment in property, plant and equipment	9	(19 941)	(4 405)
Proceeds from non-current assetsclassified as held for sale	13	310	–
Net investment in intangible assets		–	(284)
Businesses acquired	6	(8 903)	(898)
Loans advanced to loans receivable and loans to associates		(9 445)	(22 152)
Loan repayments from loans receivable and loans to associates		29 531	11 321
Cash flow from discontinued operations	13	–	(2 605)
Cash flow from financing activities		(91 573)	(52 625)
Dividends paid		(6 928)	(32 560)
Net purchase of treasury shares	4.1	(20)	(392)
Issue of ordinary shares	4.2	–	1 102
Proceeds from interest-bearing liabilities, lease liabilities and borrowings		428	10 429
Repayment of interest-bearing liabilities, lease liabilities and borrowings		(57 993)	(27 498)
Finance cost		(22 446)	(16 323)
Cash flow from discontinued operations	13	(4 614)	12 617
Increase in cash resources		28 406	(23 875)
Cash resources at the beginning of the year		17 273	41 148
Cash resources at the end of the year		45 679	17 273
Cash resources		45 679	17 273
Bank and call deposits		46 034	57 183
Bank overdraft and invoice discounting		(355)	(39 910)

* *Restated as allowed by IFRS 5* Non-current Assets Held for Sale and Discontinued Operations *(refer note 12).*

Provisional condensed consolidated statement of changes in equity

for the year ended 31 March 2020

	Notes	Total attributable to equity holders of the parent R'000	Non-controlling interest R'000	Total equity R'000
Equity as at 1 April 2018 (Audited)		625 665	15 792	641 457
Change in accounting policy		(7 894)	–	(7 894)
Total comprehensive loss for the period		(145 184)	4 117	(141 067)
Dividend paid		(25 758)	(6 803)	(32 560)
Sale of shares to non-controlling interest		93	(93)	–
Treasury shares	4.1	(392)	–	(392)
Ordinary shares issued		7 113	–	7 113
Equity as at 31 March 2019 (Audited)		453 642	13 013	466 655
Total comprehensive loss for the period		(76 729)	1 543	(75 186)
Dividend paid		–	(6 928)	(6 928)
Treasury shares	4.1	(20)	–	(20)
Equity as at 31 March 2020 (Reviewed)		376 892	7 629	384 521

Segmental reporting

for the year ended 31 March 2020

	Reviewed 2020 R'000	Restated* Audited 2019 R'000
Revenue		
CSG Facilities	666 199	773 389
CSG Security	332 387	295 497
CSG People	752 689	926 137
Total group	1 751 275	1 995 022
Operating profit	26 704	88 723
CSG Facilities	28 715	58 135
CSG Security	(6 669)	11 580
CSG People	24 372	42 358
Head office	(19 713)	(23 350)
(Loss)/profit before taxation	(33 033)	(43 392)
CSG Facilities	29 788	57 638
CSG Security	(21 562)	(109 480)
CSG People	(11 045)	41 162
Head office	(30 214)	(32 712)

* *Restated as allowed by IFRS 5* Non-current Assets Held for Sale and Discontinued Operations *(refer note 12).*

Notes to the provisional condensed consolidated results

for the year ended 31 March 2020

1. Nature of operations

CSG is a holding company incorporated and domiciled in South Africa. The main business is to provide facilities management which includes contract catering, cleaning and food services, security and risk solutions, as well as outsourced personnel services, including recruitment and specialised staffing solutions to a range of clients.

2. Basis of preparation

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The JSE Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements except for the adoption of IFRS 16 *Leases*.

The results have been prepared in accordance with the accounting policies of the company that are in terms of IFRS. These results were prepared under the supervision of the group CFO, Mr WE Scott CA(SA).

3. Contingent consideration

Final contingent considerations relating to Pinnacle Risk Solutions Management Proprietary Limited and SOS Protec Secure have been paid during the 2020 financial year.

4. Ordinary shares

4.1 Treasury shares

Treasury shares relate to the purchase of shares by the CSG Share Incentive Trust (Trust) to fulfill its obligation in terms of share option schemes.

4.2 Ordinary shares issued

During July 2018, an additional 1 312 502 shares were issued to predetermined participants resulting from an exercise of options pursuant to a specific issue of options by CSG. On 12 November 2018, 2 146 579 shares were issued relating to the sale of shares agreement of Hi-Tech White River and on 18 November 2018, 2 679 331 shares were issued relating to the Industroserve acquisition.

There were no new share issued during the current financial year.

5. Capital commitments and contingencies

The group had no significant outstanding capital commitments or contingencies as at 31 March 2020.

6. Business combinations

6.1 Film and TV Chefs Proprietary Limited t/a Shesha Film and Event (Shesha)

On 29 March 2019, CSG Food Solutions Proprietary Limited (CSG Foods), a wholly-owned subsidiary of CSG, signed an agreement with Shesha in terms of which the company agreed to buy the business of Shesha for an amount of R8 million. Shesha is domiciled in South Africa and is a well-known catering company in the film and production industry.

The effective date was 1 April 2019 and the purchase consideration was paid in cash in two tranches. R5 million was paid in April 2019 and a further R3 million in July 2019 after the finalisation of the acquisition balance sheet.

The transaction was accounted for in terms of IFRS3 *Business Combinations*.

Recognised amounts of identifiable net assets

As at 1 April 2019	R'000
Non-current assets	2 888
Property, plant and equipment	2 888
Current assets	1 182
Trade and other receivables	1 161
Inventories	21
Current liabilities	(1 284)
Trade and other payables	(1 284)
Identifiable net assets	2 786
Goodwill on acquisition	5 214
Purchase consideration	8 000
Cash flow information	
Bank balance acquired	–

Since the acquisition date (1 April 2019), Shesha has contributed R18,16 million to group revenue and R135 605 to group profit.

The company was acquired to diversify the catering division and to expand the basket of services provided by CSG Foods. The full excess on purchase price is as a result of synergies. No brand name or customer lists were identified and the full amount was therefore identified as goodwill.

6.2 Ingwe Facility Management cc (Ingwe)

On 1 August 2019, Afriboom Proprietary Limited (Afriboom), a wholly-owned subsidiary of CSG, entered into a sale of assets agreement with Ingwe whereby Afriboom purchased a number of contracts plus the resultant assets.

The effective date was 1 August 2019 and the purchase consideration was paid in cash in November 2019.

The transaction was accounted for in terms of IFRS3 *Business Combinations*.

Recognised amounts of identifiable net assets

As at 1 August 2019	R'000
Non-current assets	102
Property, plant and equipment	82
Deferred tax asset	20
Current liabilities	(72)
Trade and other payables	(72)
Identifiable net assets	30
Intangible assets identified	1 213
Deferred tax liability on the above intangible asset	(340)
Purchase consideration	903
Cash flow information	
Bank balance acquired	–

Since the acquisition date, Ingwe has contributed R1,43 million to group revenue and R358 702 to group profit. If the acquisition had occurred on 1 April 2019, the group revenue would have been R2,14 million and group profit for the period would have been R538 053.

The company was acquired to gain access to their customer list, to diversify and to expand the basket of services provided by Afriboom. The full excess on purchase price has been recognised as a customer list intangible asset.

7. Goodwill

	Reviewed 2020			Audited 2019		
	Cost R'000	Accumulated impairment R'000	Carrying amount R'000	Cost R'000	Accumulated impairment R'000	Carrying amount R'000
Goodwill	336 768	(121 552)	215 216	331 554	(86 953)	244 601

Reconciliation of goodwill – 2020

	Opening balance R'000	Additions R'000	Additions through business combinations (refer to note 6) R'000	Impairment R'000	Total R'000
Goodwill	244 601	–	5 214	(34 599)	215 216

Reconciliation of goodwill – 2019

	Opening balance R'000	Additions R'000	Additions through business combinations (refer to note 6) R'000	Impairment R'000	Total R'000
Goodwill	331 114	–	–	(86 513)	244 601

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises as follows:

	2020 R'000	2019 R'000
CSG Facilities	55 870	50 656
CSG Security	79 993	79 993
CSG People	79 353	113 952
	215 216	244 601

The recoverable amount of each segment was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful life using a growth rate determined by management.

The present value of the expected cash flows of each segment is determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the segment.

	Growth rates		Discount rates	
	2020 %	2019 %	2020 %	2019 %
CSG Facilities	4,1	4,5	22	23
CSG Security	4,1	4,5	20	24
CSG People	4,1	4,5	23	29

Growth rates

The growth rates are based on inflation. Due to COVID-19 and the risk this has created for the economy, growth is expected to equal inflation for the next few years. The growth into perpetuity has been updated to 4,6% to take into account growth of 0,50% above inflation from year three onwards.

Discount rates

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each segment.

Cash flow assumptions

Management calculated future profits based on historical achievement and the revised forecasts for the 2020/2021 period. These forecasts have been based on current events and are based on assumptions taking into account both worst and best case scenarios arising out of COVID-19. Management has also applied a stress budget approach in order to ensure these forecasts are reasonable. Costs have been calculated to grow in line with expansion and expected inflation. Cash flows have been extended into perpetuity at the growth rates noted above as management have no reason to believe the group will not continue past the budget period. Apart from the considerations in determining the value in use of the segments as described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates. The impairment test did result in a partial impairment for the people division. This is as a result of weak operational performance coming out of 2020 into 2021 as well as reduced business as a direct result of COVID-19.

The impairment is included as a separate line item on the statement of profit and loss and other comprehensive income.

Management applied a sensitivity analysis on both discount rates and growth rates. Both the facilities and security divisions remain sensitive to any changes but currently no impairment loss is necessary for these divisions.

8. Change in accounting policy

The group adopted IFRS 16 with a transition date of 1 April 2019. The group has chosen not to restate comparatives on adoption and therefore the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed as at the date of initial application (1 April 2019, being the beginning of the financial year). Details of the impact of this standard have been given below. Other new and amended standards and interpretations issued by the International Accounting Standards Board did not impact the group as they are either not relevant to the group's activities or require accounting which is consistent with the group's current accounting policies.

IFRS 16 *Leases*

Effective 1 January 2019, IFRS 16 replaced IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The group does not have significant leasing activities acting as a lessor, other than sub-leasing office space between entities. These have all been excluded as low value and short term.

The group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application, without restatement of comparative figures. The group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 or IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of the lease term remaining as of the date of initial application.

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and liabilities for most leases. The group has, however, elected not to recognise right-of-use assets and liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 April 2019:

		31 March 2019		
	Adjustments	As originally presented R'000	IFRS 16 R'000	1 April 2019 R'000
Assets				
Property, plant and equipment	(a)	80 442	(46 993)	33 449
Right-of-use assets	(b)	–	69 066	69 066
Liabilities				
Interest-bearing liabilities	(c)	168 210	(35 523)	132 687
Lease liabilities	(d)	–	57 596	57 596

	1 April 2019 R'000
(a) Property, plant and equipment was adjusted to reclassify leases previously classified as finance type to right-of-use assets. The adjustment reduced the cost of property, plant and equipment by R69,19 million and accumulated depreciation by R22,20 million for a net adjustment of R46,99 million.	
(b) The adjustment to right-of-use assets is as follows:	
Adjustment noted in (a) – finance type leases	46 993
Operating type leases	22 073
Right-of-use assets as at 1 April 2019	69 066
(c) Interest-bearing liabilities were adjusted to reclassify leases previously classified as finance type to lease liabilities.	
(d) The following table reconciles the minimum lease commitments disclosed in the group's 31 March 2019 annual financial statements to the amount of lease liabilities recognised on 1 April 2019:	
Minimum operating lease commitment as at 31 March 2019	14 667
Plus: Effect of extension options reasonably certain to be exercised	5 639
Plus: Leases deemed to be immaterial in previous years	5 588
Undiscounted lease payments	25 894
Less: Effect of discounting using the incremental borrowing rate as at the date of initial application	(3 821)
Lease liabilities for leases classified as operating type under IAS 17	22 073
Plus: Leases previously classified as finance type under IAS 17	35 523
Lease liability as at 1 April 2019	57 596

9. Property, plant and equipment

	Reviewed 2020			Audited 2019		
	Cost R'000	Accumulated depreciation and impairment loss R'000	Carrying amount R'000	Cost R'000	Accumulated depreciation and impairment loss R'000	Carrying amount R'000
Leasehold improvements	1 189	(795)	394	1 232	(647)	585
Plant, equipment and tools	40 594	(21 880)	18 714	41 419	(26 152)	15 267
Furniture and office equipment	11 362	(8 691)	2 672	10 259	(7 351)	2 908
Motor vehicles	6 513	(4 091)	2 422	61 369	(20 786)	40 583
Computer and surveillance equipment	31 076	(19 775)	11 301	29 700	(17 187)	12 513
Security equipment	9 092	(6 775)	2 317	9 532	(5 594)	3 938
Containers	5 550	(3 398)	2 152	6 363	(3 195)	3 168
Tents	2 389	(2 389)	–	2 389	(2 389)	–
Aircraft	2 153	(673)	1 480	2 153	(673)	1 480
	109 918	(68 466)	41 452	164 416	(83 974)	80 442

9. Property, plant and equipment continued

Reconciliation of property, plant and equipment

	Opening balance R'000	Transfer to right-of-use assets (refer note 8) R'000	Additions R'000	Acquired through business combination (refer note 6) R'000	Disposal R'000	Depreciation and impairments R'000	Foreign currency translation reserve R'000	Total R'000
2020								
Leasehold improvements	585	–	140	–	(102)	(229)	–	394
Plant, equipment and tools	15 267	(1 954)	11 712	1 460	(242)	(7 539)	10	18 714
Furniture and office equipment	2 908	–	863	88	(24)	(1 189)	25	2 672
Motor vehicles	40 583	(39 604)	1 018	1 332	(481)	(595)	168	2 422
Computer and surveillance equipment	12 513	(5 435)	9 102	90	(365)	(4 604)	–	11 301
Security equipment	3 938	–	427	–	(651)	(1 396)	–	2 317
Containers	3 168	–	–	–	–	(1 366)	350	2 152
Aircraft	1 480	–	–	–	–	–	–	1 480
	80 442	(46 993)	23 262	2 970	(1 865)	(16 918)	553	41 452

	Opening balance R'000	Additions R'000	Acquired through business combination R'000	Classified as held for sale R'000	Disposal R'000	Transfers# R'000	Depreciation and impairments R'000	Foreign currency translation reserve R'000	Total R'000
2019									
Leasehold improvements	959	170	–	–	(282)	–	(263)	–	585
Plant, equipment and tools	16 397	9 731	–	–	(417)	(1 353)	(9 092)	–	15 267
Furniture and office equipment	3 317	911	–	(95)	(86)	–	(1 190)	51	2 908
Motor vehicles	33 680	21 500	–	–	(4 851)	–	(9 813)	67	40 583
Computer and surveillance equipment	12 757	5 354	8	(213)	(555)	–	(4 838)	–	12 513
Security equipment	2 865	2 493	47	(2)	(147)	–	(1 319)	–	3 938
Containers	11 325	–	–	–	(5 699)	–	(2 845)	387	3 168
Aircraft	1 480	–	–	–	–	–	–	–	1 480
	82 780	40 159	55	(310)	(12 037)	(1 353)	(29 360)	505	80 442

The transfer relates to uniforms in Afriboom Proprietary Limited that have been reclassified to inventories during the 2019 financial year. This is in line with the treatment followed by the rest of the group.

9. Property, plant and equipment continued

All depreciation charges are included within depreciation, amortisation and impairment of non-financial assets (disclosed as operating expenses).

	2019 R'000
Comparitive information for property, plant and equipment encumbered as security under IAS 17	
The following assets have been encumbered as security for the interest bearing liabilities (refer note 10)	
Plant, equipment and tools subject to finance leases/instalment sale agreements	1 954
Motor vehicles subject to finance leases/instalment sale agreements	39 604
Computer equipment subject to finance leases/instalment sale agreements	5 435

There were no material contractual commitments to acquire property, plant and equipment as at 31 March 2020 (2019: Rnil).

10. Right-of-use assets and lease liabilities

The group leases a number of office buildings for its operations. These include the head office at Equity Park, 257 Brooklyn Road, Pretoria but also the office buildings of all subsidiaries across South Africa. These leases escalate every year at rates predetermined in the lease agreements and have been discounted at prime over the remaining lease term. Where applicable and reasonably certain that a renewal option would be taken, this was included in the lease term.

The group has also capitalised certain of its office equipment as a result of adopting IFRS 16. These leases were previously accounted for as operating leases and disclosed as part of rental costs in the operating profit section of the financial statements. Additions include rentals of printers, telephone and PABX systems.

The group also leases certain plant and equipment, vehicles, computer equipment on finance leases. These leases have fixed payments over the lease term that are inclusive of interest rates linked to the prime lending rate (-0,5% to 2%). The monthly instalments amount to R3,02 million (2019: R1,70 million) and the average lease term is four years. These leases are secured over the right-of-use assets disclosed below.

Right-of-use assets

	1 April 2019 R'000	Additions R'000	Disposal R'000	Depreciation R'000	Impairment R'000	Foreign exchange movements R'000	Closing balance R'000
Buildings	21 928	6 790	–	(9 871)	(332)	–	18 514
Plant, equipment and tools	1 954	2 111	(25)	(823)	–	–	3 216
Motor vehicles	39 749	11 612	(4 289)	(12 227)	–	(40)	36 748
Office equipment	–	3 184	(2 347)	(734)	–	–	2 450
Computer equipment	5 435	–	–	(1 504)	–	–	3 931
	69 066	23 696	(2 372)	(25 158)	(332)	(40)	64 859

Lease liabilities

	1 April 2019 R'000	Additions R'000	Interest expense R'000	Lease payments R'000	Foreign exchange movements R'000	Closing balance R'000
Buildings	21 928	6 790	2 344	(10 602)	–	20 460
Plant, equipment and tools	995	2 169	105	(836)	–	2 432
Motor vehicles	31 317	11 928	3 062	(19 852)	(82)	26 373
Office equipment	–	3 184	259	(921)	–	2 522
Computer equipment	3 356	–	363	(1 911)	–	1 808
	57 596	24 070	6 133	(34 122)	(79)	53 595

10. Right-of-use assets and lease liabilities continued

Lease liabilities continued

	2020 R'000	2019 R'000
Short-term lease expense	881	–
Low value lease expense	1 154	–
Expenses relating to variable payments not included in the measurement of lease liabilities	91	–
Impairment on right-of-use asset	332	–
The maturity analysis of lease liabilities is as follows:		
Within one year	33 289	19 858
Two to five years	26 512	20 606
	59 801	40 464
Less: Finance charges component	(6 206)	(4 941)
	53 595	35 523
Non-current liabilities	24 236	18 620
Current liabilities	29 359	16 903
	53 595	35 523
Comparative information for lease liabilities under IAS 17		
Present value of minimum lease payments due:		
Within one year		16 903
In second to fifth year inclusive		18 620

11. Trade and other receivables

	2020 R'000	2019 R'000
Trade and other receivables consists of the following:		
Trade receivables	265 105	347 627
Loss allowance	(32 536)	(7 651)
Trade receivables at amortised cost	232 569	339 976
Deposits	1 822	1 315
Sundry debtors	14 751	17 869
Discretionary grant debtor (SETA funding)	2 667	1 967
Employee tax incentive debtor	3 293	2 569
Fair value adjustment on debtor	–	(1 180)
Financial assets at amortised cost	255 102	362 516
Prepayments	2 540	5 415
South African Revenue Services (VAT, PAYE, UIF and SDL)	219	1 998
Non-financial assets	2 759	7 413
	257 861	369 929
Split between non-current and current portions		
Non-current assets	–	3 007
Current assets	257 861	366 922

The net carrying value of trade receivables is considered reasonable.

Sundry debtors relates to sales provisions for the final week wages and working capital loan contributions in terms of enterprise and supplier development projects.

11. Trade and other receivables continued

Exposure to credit risk

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

In order to mitigate the risk of a financial loss from defaults, the company only deals with reputable customers with consistent payment histories. Each customer is analysed individually for creditworthiness before terms and conditions are offered.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

The average credit period on trade receivables is 60 days (2019: 60 days). No interest is charged on outstanding trade receivables.

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 group 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. These lifetime expected credit losses are estimated using a provision matrix, which is as follows. The provision matrix has been developed by making use of the group's historical credit losses experienced over the three-year period prior to period end. Where a historical loss was not available, the past due debtors as a percentage of total debtors was used as a guide.

The rate was then adjusted for both current and forward-looking information and general economic conditions of the industry as at the reporting date.

The loss rate for the current year also had an added premium to take the effect of COVID-19 into account on both the economy, but also the ability of our customers to continue paying.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

For disclosure purposes, the loss ratios have been combined per division as these show similar loss patterns. The minimum and maximum loss range has been disclosed per division.

Where the calculated historical loss rate for the specific subsidiary resulted in an immaterial expected credit loss, no provision was raised.

The loss allowance provision is determined as follows:

	Estimated gross carrying amount R'000	Loss allowance (lifetime expected credit loss) R'000	Historical loss rate range	
			Minimum %	Maximum %
2020				
CSG Facilities				
Current	38 346	–	0,10	11,08
After 30 days	13 334	70	0,80	38,76
After 60 days	2 809	16	2,25	85,45
After 90 days	15 757	5 753	3,90	90,52
	70 246	5 839		
CSG Security				
Current	30 745	85	0,23	4,18
After 30 days	9 439	606	0,80	25,88
After 60 days	4 499	422	1,51	55,29
After 90 days	22 335	13 918	2,20	70,76
	67 018	15 031		
CSG People				
Current	64 008	405	0,18	1,74
After 30 days	41 998	411	0,21	6,54
After 60 days	8 026	643	3,29	16,02
After 90 days	13 534	10 207	9,57	32,53
	127 566	11 666		
Head office				
Current	–	–		
After 30 days	–	–		
After 60 days	–	–		
After 90 days	276	–		
	276	–		
Total	265 106	32 536		

11. Trade and other receivables continued

Exposure to credit risk continued

	Estimated gross carrying amount R'000	Loss allowance (lifetime expected credit loss) R'000	Historical loss rate range Minimum %	Historical loss rate range Maximum %
2019				
CSG Facilities				
Current	60 035	99	0,04	1,94
After 30 days	14 659	121	0,45	3,73
After 60 days	3 978	305	2,06	54,77
After 90 days	3 924	597	5,31	34,04
	82 596	1 122		
CSG Security				
Current	21 096	81	0,41	0,48
After 30 days	10 366	249	3,62	4,28
After 60 days	5 585	1 061	16,21	25,54
After 90 days	17 847	1 830	26,91	32,05
	54 894	3 221		
CSG People				
Current	98 159	122	0,11	2,49
After 30 days	64 690	184	0,14	6,71
After 60 days	26 756	477	0,68	18,05
After 90 days	20 532	2 524	6,99	37,58
	210 137	3 307		
Total	347 627	7 651		

The trade receivables population of each subsidiary was assessed for specific trade receivables that are at risk. These debtors have been specifically provided and removed from the population. The residual population was assessed to address the inherent risk of default applicable to trade receivables through formulating and applying historical loss rates for each aged category in relation to the category's payment history (provision matrix referred to previously).

	Current R'000	After 30 days R'000	After 60 days R'000	After 90 days R'000	Total R'000
2020					
CSG Facilities					
Loss allowance per above	–	70	16	5 753	5 839
Specific debtors at risk	–	–	–	5 089	5 089
Residual loss allowance	–	70	16	664	750
CSG Security					
Loss allowance per above	85	606	422	13 918	15 031
Specific debtors at risk	370	202	599	10 646	11 817
Residual loss allowance	(285)	404	(177)	3 272	3 214
CSG People					
Loss allowance per above	405	411	643	10 207	11 666
Specific debtors at risk	96	511	480	9 369	10 456
Residual loss allowance	309	(100)	163	838	1 210
2019					
CSG Facilities					
Loss allowance per previously stated	99	121	305	597	1 122
Specific debtors at risk	99	121	305	597	1 122
Residual loss allowance	–	–	–	–	–
CSG Security					
Loss allowance per previously stated	81	249	1 061	1 830	3 221
Specific debtors at risk	–	–	–	–	–
Residual loss allowance	81	249	1 061	1 830	3 221
CSG People					
Loss allowance per previously stated	122	184	477	2 524	3 307
Specific debtors at risk	–	–	–	1 226	1 226
Residual loss allowance	122	184	477	1 298	2 081

11. Trade and other receivables continued

Exposure to credit risk continued

The movement for allowance in credit losses is presented below:

	2020 R'000	2019 R'000
Opening balance	7 651	12 932
Impairment losses recognised on receivables	27 033	9 470
Impairment losses reversed on receivables	–	(45)
Receivables written off as uncollected	(2 148)	(14 706)
	32 536	7 651

12. Deferred tax assets and liabilities

	2020 R'000	2019 R'000
Deferred tax asset	38 539	11 615
Deferred tax liability	(5 232)	(3 723)
Net asset	33 307	7 892
On timing differences arising from:		
Capital allowances	(230)	(115)
Intangible assets	(5 703)	(3 647)
Prepaid expenses	(708)	(641)
Revenue received in advance	874	529
Assessed loss	23 312	2 435
Bonus and leave accruals	10 518	6 810
Fair value adjustment on financial assets	–	331
IFRS 16 *Lease* adjustments	433	–
Doubtful debt allowance	4 811	2 190
	33 307	7 892

	2020 R'000	2019 R'000
Movement analysis		
Balance at beginning of the year	7 892	(24 061)
Arising from business combination (refer note 6)	(320)	(939)
Intangible assets	(340)	(939)
Bonus and leave accruals	20	–
Charged to profit and loss	11 368	29 822
Capital allowances	(115)	382
Intangible assets	(1 716)	28 256
Prepaid expenses	(67)	(165)
Revenue received in advance	221	(149)
Assessed loss	9 422	2 273
Bonus and leave accrual	2 210	813
Fair value adjustment on financial assets	(331)	331
IFRS 16 *Lease* adjustments	413	–
Doubtful debt allowance	1 330	(1 924)
Accounting policy change (IFRS 9)	–	3 070
Deferred tax on discontinued operations	14 368	–
Balance at the end of the year	33 307	7 892

A deferred tax asset of R2,79 million (2019: R38,01 million) associated with assessed losses has not been recognised, as it is probable that the temporary difference will not reverse in the forseeable future. The tax value is equivalent to a temporary difference of R9,95 million (2019: R10,64 million).

A deferred tax asset of R11,45 million (2019: Rnil) associated with the assessed losses in 7Arrows has been recognised on account of the probable future utilisation of these losses as a result of the sale of operations (refer note 13).

Recognition of a deferred tax asset

The deferred tax asset is recognised on account of deductible temporary differences that will reverse and hence are not impaired.

13. Discontinued operations and non-current assets held for sale

The board, after due consideration and as a result of continuous losses, made the decision to sell the 7Arrows business and entered into an agreement with Fidelity ADT Monitoring Proprietary Limited. As a result, CSG will dispose of a specified part of the armed response and monitoring business of 7Arrows, and a specified part of the residential guarding business of 7Arrows, for a consideration of R65,85 million with the effective date anticipated to be 1 September 2020.

No assets or resultant liabilities have been identified as part of the sale agreement. These will be sold separately after the effective date but no agreements are currently in place.

During the prior year, the full armed response and monitoring business of Hi-Tech Risk Solutions Proprietary Limited (previously known as White River Hi-Tech Security Proprietary Limited) was sold to Hi-Tech Nelspruit Proprietary Limited, via a common control transaction.

On 18 April 2019, Hi-Tech Nelspruit Proprietary Limited, together with the franchisor, CSG Security Supplies and Services Proprietary Limited, entered into a sale of business agreement with International Sales and Services Proprietary Limited to sell the business of the company for an amount of R358 000. The effective date for this transaction was 1 May 2019. The decision was made by the directors to discontinue these operations due to the lack of return on investment, however, the company will remain on as a franchisee in the Hi-Tech Group and continued royalties will be received on this.

	2020 R'000	2019 R'000
Profit and loss		
Revenue	150 128	172 524
Expenses	(211 936)	(284 392)
Net loss before tax	(61 806)	(111 868)
Tax	14 368	4 307
Net loss	(47 438)	(107 561)
Expenses are made up as follows:		
Cost of sales	(148 734)	(104 419)
Other operating income	12 132	1 658
Other operating expenses (excluding depreciation and impairments)	(68 642)	(92 635)
Impairment loss	(332)	(78 836)
Depreciation, including right-of-use	(4 734)	(7 384)
Interest income	–	178
Interest expense	(1 626)	(2 954)
Assets and liabilities		
Assets in disposal group held for sale		
Property, plant and equipment	–	310
Cash flow statement		
Cash flow from operations	(31 026)	(19 696)
Cash flow from investing activities	–	(2 605)
Cash flow from financing activities	(4 614)	12 617

14. Events after the reporting period

The directors are not aware of any material events, other than commentary provided previously on the effects of the COVID-19 pandemic, which occurred after the reporting date and up to the date of this report.

15. Changes in directors

Mr N Ramages stepped down as a director of the company with effect from 26 February 2020.

16. Going concern

The financial information has been prepared on a going concern basis.

17. Review opinion

The provisional financial results have been reviewed by the company's auditors, BDO South Africa Inc., who have expressed an unmodified review conclusion on the results. A copy of their review report is 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/financial results. 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 issuer's registered office.

For and on behalf of the board

BT Ngcuka	PJJ Dry
Chairman	*Chief executive officer*

1 July 2020

Corporate information

Share code: CSG
ISIN: ZAE000184438

Registered office

6 Topaz Street, Lyttelton Manor
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(Postal address as above)

Registration number

2006/011359/06

Date and place of incorporation

12 April 2006
Johannesburg, South Africa

Directors

BT Ngcuka* (Chairman); PJJ Dry (CEO); JG Nieuwoudt (COO); WE Scott (CFO); NN Sonjani*#; R Kisten *#; N Ramages* (resigned 26 February 2020); M Mokoka*#

(non-executive) (# independent)*

Company secretary

MN Hattingh, BCom, LLB
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Announcement date

1 July 2020

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