



ZARCLEAR HOLDINGS LIMITED

SUMMARISED AUDITED
CONSOLIDATED FINANCIAL
STATEMENTS FOR THE
12 MONTHS ENDED 30 JUNE 2021

DIRECTORS' REPORT for the 12 months ended 30 June 2021

Overall performance summary

The directors present their report which forms part of the consolidated and separate financial statements for the 12-month period ended 30 June 2021. The financial statements set out fully the financial position, results of operations and cash flows for the Company and the Group ("Zarclear") for the financial period ended 30 June 2021. The financial statements have been prepared under the supervision of AJ Hannington CA (SA), the Group Chief Financial Officer.

Management and the board continued to focus on generating growth in net asset value ("NAV") per share. As such, NAV per share remained the Company's overarching key performance indicator and NAV per share is used as the measure of financial results for trading-statement purposes.

At 474 cents per share ("cps"), NAV reflected a decrease of 21.0% over the 600 cps as at 30 June 2020. The key driver of this decrease is the capital reduction distribution of 190 cps, effected in December 2020. Excluding the distribution, NAV on a like-for-like basis would have increased 10.7% since 30 June 2020. The discount to NAV at which the Company's shares traded has improved significantly from 32.3% at 30 June 2020 to 11.4% at 30 June 2021. There was no change in the Company's share capital during the period other than the capital reduction distribution. Closing the discount to NAV remains a priority of the board.

On 30 June 2021, cash and cash equivalents amounted to R541 million (30 June 2020: R745 million). The decrease was driven directly as a result of the capital reduction distribution, which was offset to a large extent by positive cash inflows from trading activities and the disposal of further shares in Stenprop Limited ("Stenprop"). The cash balances support the Company's hedge-fund investments and are encumbered in part. The board has every confidence that the Company's investment strategy will utilise excess cash resources, to the benefit of shareholders.

Financial results

The Group's results for the financial year were favourably impacted by the performance of the hedge funds which generated positive returns as we were able to take advantage of the volatility in the market as well as the buoyant equity market. The Group's exposure to the major world currencies has increased in the current year from 37% of NAV to 45%, driven by the capital reduction distribution which reduced the overall NAV with the resultant significant ZAR cash outflow. Performance and closing valuations were impacted by a strengthening in Rand exchange rates against the major world currencies (GBP, EURO or USD), against which the Rand strengthened over the course of the year by 7.4%, 12.7% and 17.5% respectively (2020 weakened by: 13.2%, 19.8% and 19.7%).

Due to the large offshore (non-Rand), component of the investment portfolio, the board tracks Zarclear's key performance indicator (NAV per share) in both Rands and GBP, the latter the functional reporting currency of its largest subsidiary, Sandown Capital International Limited ("SCIL").

Note that results for the 2021 financial year span a period of 12 months compared to 15 months for the 2020 financial year arising from the change in financial year end in the prior reporting period.

Salient financial highlights for the year ended and as at 30 June 2021 are:

- NAV per share at 30 June 2021 of 474 cps (30 June 2020: 600 cps), a decrease of 21.0% over the year. Excluding intangible assets, NAV decreased by 21.2% to 468 cps over the same measure at the end of the 2020 financial year.
- The key driver of this decrease is the capital reduction distribution of 190 cps, effected in December 2020. Excluding the distribution, NAV on a like-for-like basis would have increased 10.7% since 30 June 2020.
- NAV per share at 30 June 2021 of GBP 23.97 pence per share (pps) (30 June 2020: GBP 28.09 pps), a decrease of 14.7%, driven by the capital reduction distribution and the strengthening of the Rand against the major world currencies, but underlining the Rand hedge strength of the Company's share.
- Investment gains of R289,8 million (2020: R68,7 million) together with R35,5 million (2020: R52,1million) revenue from the market infrastructure and regulation technology investments.
- Impairment of investment in and loans to Nala Empowerment – R1,5 million (2020: R28,6 million).
- Operating expenses of R92,5 million, including R43,0 million performance fees and expenses related to the directly managed fund as well as R33,3 million operating expenses from the market infrastructure and regulation technology segment. 2020 reported operating expenses of R85,4 million, including R30,7 million performance fees and expenses related to the directly managed fund as well as R41,1 million operating expenses from the market infrastructure and regulation technology segment.
- Operating profits of R232,8 million, after impairments of R7,3 million (2020: R29,5 million, after impairments of R34,4 million).
- Basic profits attributable to ordinary shareholders of R188,7 million (2020: R45.6 million).
- A significant portion of the Group's operating profits relate to unrealised gains on the listed and unlisted investments as well as hedge funds and directly managed funds in which the Group remains invested.

DIRECTORS' REPORT for the 12 months ended 30 June 2021

continued

Investment strategy

Zarclear's current investment strategy remain unchanged and is premised on the understanding that the Company's portfolio carried with it the inherent likelihood of a persisting discount to NAV, which discount would be difficult to overcome without a clearly articulated, compelling investment case.

The Company's investment strategy comprises two legs. The first leg consists of managing a portfolio of assets including listed equities, contracts for difference, fixed-income and other investments which provide liquidity, transparency and market-related returns (and whose liquidity underpins the second strategic leg). The second leg is concerned with developing, investing in and managing market-infrastructure and regulation technology operations.

The current period has seen reduced corporate activity with some further divestment of holdings in Stenprop and a restructuring of holdings in the "Nala" entities, Nala A2X and Nala Empowerment Investment Company ("Nala CILCo"). In addition, focus was maintained on extracting opportunities from our trading portfolio within the directly managed portfolio managed by Peregrine Capital, which performed particularly well in the current volatile environment.

Stenprop, albeit a legacy asset, remains a core part of the portfolio. However, during the current financial year, we continued to monetise a portion of the shareholding. In November 2020 and March 2021, the Group, through its 100% holding in Sandown Capital International Limited ("SCIL") sold 3,093,744 and 1,384,703 shares of the holding in Stenprop shares for a total consideration of R123,2 million, bringing the current holding to 10,000,000 shares (2020: 14,487,447 shares) and now representing circa 3.35% (2020: 5.1%) of the outstanding shares in issue.

The second leg of the Company's investment strategy entails management actively and closely deploying financial and other resources to a few high conviction financial-market infrastructure and regulation technology investments in which the Company is able to actively engage with management while adding strategic, governance and other value.

Effective 1 February 2021, Zarclear reached agreement with Nala Empowerment Investment Company Holdings Proprietary Limited ("NEICH"), the 70% shareholder in Nala CILCo to the effect that Nala CILCo repurchased from Zarclear, Zarclear's 30% shareholding in Nala CILCo in exchange for Nala CILCo's 72% shareholding in Nala A2X, resulting in NEICH now being the sole shareholder of Nala CILCo and Zarclear being the sole shareholder of Nala A2X. Subsequent to the transactions detailed above, Nala A2X changed its name to African Phoenix A2X Proprietary Limited.

Targeted investments are in regulated exchanges, trade repositories, clearing houses, securities depositories and investment and technology platforms within the financial markets sector in general and South Africa in particular. The Company has four investments in this area with 5.47% shareholding acquired in Equity Express Securities Exchange Proprietary Limited ("Equity Express") in 2020. The other investment comprising the aforementioned 100% holding in African Phoenix A2X Proprietary Limited ("AP A2X"), 100% of Peresec Technology Solutions Proprietary Limited ("PTS") (formerly Zarclear Proprietary Limited), providing infrastructure and regulation technology services to financial services companies, and 60% of Zarclear Securities Lending Proprietary Limited ("Zarclear Securities Lending"). All these businesses have required relatively low initial investments, rely heavily on new technologies and look to exploit the changing regulatory landscape by fulfilling market needs brought about by new legislation.

Corporate activity update

On 31 August 2020, shareholders were advised that despite the withdrawal of the delisting offer made on 5 August 2020, Legae Peresec Capital expressed its desire to the Board to further increase its strategic holding in the Company and informed the Board that Legae Peresec Capital would proceed with a general offer at an offer price of R4.40 per Zarclear share. Although the offer price was below the bottom end of the Independent Expert's fair value range, the Offeror was of the view that the general offer still presented those shareholders who wished to monetise their shareholding with an opportunity to do so at a price that reflected a meaningful premium to the recently traded price of Zarclear shares at the time.

On 24 November 2020, shareholders were advised that as a result of the extensive take-up of the general offer made to Zarclear shareholders by Legae Peresec Capital Proprietary Limited, only c.4.22% of Zarclear's total shares in issue are now held by public shareholders, well below the minimum spread requirements for Main Board JSE-listed companies.

Shareholders were further advised that, having regard to the impact that the COVID-19 pandemic has had and is anticipated to continue to have on equity capital markets for an extended period, the Company's board of directors (the "Board") has determined that the costs and expenses associated with the Company's listings on the JSE and A2X are no longer justified.

DIRECTORS' REPORT for the 12 months ended 30 June 2021

continued

Accordingly, the Board has resolved that it would be in the best interests of Zarclear and its shareholders to seek a delisting of Company's shares from the JSE and A2X on the basis that the delisting be accompanied by a fair cash offer to relevant existing shareholders.

On 4 August 2021, shareholders were advised that the board of directors of Zarclear had resolved that, subject to securing the requisite approval from its shareholders in a general meeting and the JSE and A2X approving the Company's delisting application, it would be in the best interests of Zarclear and its shareholders to seek a delisting of the Company's shares from the Main Board of the JSE and A2X under the voluntary delisting regime provided for under the JSE Listings Requirements and the A2X Listings Requirements (the "delisting").

In compliance with the JSE Listings Requirements and the A2X Listings Requirements, the delisting must be accompanied by an offer (that an independent expert has confirmed to be fair to shareholders) which is to be made to holders of all Zarclear's listed securities.

As such, subject to the delisting being approved in accordance with all regulatory requirements, Zarclear has issued a circular on 26 August 2021 wherein Zarclear makes an offer to all of its shareholders in terms of section 5.67(B) of the JSE Listings Requirements to voluntarily tender for repurchase all, or only a portion, of their existing shareholding in the Company at an offer price of R4.60 per share (the "share repurchase offer consideration"), in compliance with the relevant provisions of the Companies Act 71 of 2008, the Takeover Regulations promulgated thereunder, the JSE Listings Requirements and the A2X Listings Requirements (the "share repurchase offer").

The delisting and share repurchase offer will be implemented on the basis that shareholders are afforded an opportunity to either monetise their investment in Zarclear at a fair price or to continue to hold shares in Zarclear in an unlisted environment. All shareholders will be entitled to elect to remain invested in Zarclear and any shareholder who does not wish to accept the share repurchase offer may retain its shareholding in Zarclear post the delisting.

The board of directors of Zarclear takes full responsibility for the preparation of this report.

Paul Baloyi
Non-Executive Chairman

Warren Chapman
Chief Executive Officer

Andrew Hannington
Chief Financial Officer

2 September 2021

Directors: Paul Baloyi* (Chairman); Warren Chapman (CEO); Andrew Hannington (CFO); Fatima Vawda*; Amanda Munro-Smith; Kgosie Matthews*

*(*Independent non-executive)*

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Company Secretary: CIS Company Secretaries Proprietary Limited

Transfer Secretaries: Computershare Investor Services Proprietary Limited

Sponsor: Java Capital Trustees and Sponsors Proprietary Limited

The audited annual financial statements are available on Zarclear's website on www.zarclear.com.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2021

	2021 R'000s	2020 R'000s
Assets		
<i>Non-Current Assets</i>	517,214	535,253
Plant and equipment	1,235	1,482
Goodwill	14,944	14,944
Investments in associates	167,718	134,174
Financial investments	329,317	382,202
Deferred tax	4,000	2,451
<i>Current Assets</i>	969,669	1,894,386
Trade and other receivables	338,977	1,069,774
Financial investments	89,130	79,371
Current tax receivable	149	149
Cash and cash equivalents	541,413	745,092
Total Assets	1,486,883	2,429,639
Equity and Liabilities		
<i>Equity</i>		
<i>Equity and reserves</i>	1,078,683	1,361,294
Share capital	44,875	474,400
Reserves	103,657	147,728
Retained income	923,535	734,808
Total attributable to equity holders of the company	1,072,067	1,356,936
Non-controlling interest	6,616	4,358
Non-Current Liabilities		
Deferred tax	57,920	96
<i>Current Liabilities</i>	350,280	1,068,249
Trade and other payables	350,176	1,067,645
Current tax payable	104	604
Total Liabilities	408,200	1,068,345
Total Equity and Liabilities	1,486,883	2,429,639

STATEMENT OF COMPREHENSIVE INCOME

for the 12 months ended 30 June 2021

	2021 R'000s	2020* R'000s
Investment income	289,831	68,713
Fee income	35,476	52,087
Total Income	325,307	120,800
Impairment charges	–	(5,863)
Operating expenses	(92,496)	(85,420)
Operating profit	232,811	29,517
Interest received	16,573	29,042
Interest paid	(2)	(10,893)
Profit before taxation	249,382	47,666
Taxation	(58,398)	1,927
Profit for the year/period	190,984	49,593
Other comprehensive income:		
Items that will be subsequently reclassified to profit or loss:		
Currency translation differences	(44,071)	97,488
Other comprehensive income for the year/period net of taxation	(44,071)	97,488
Total comprehensive income for the year/period	146,913	147,081
Profit attributable to:		
Equity holders of the company	188,727	45,630
Non-controlling interest	2,257	3,963
	190,984	49,593
Total comprehensive income attributable to:		
Equity holders of the company	144,656	143,118
Non-controlling interest	2,257	3,963
	146,913	147,081
Basic and diluted earnings per share (cents)	83,48	20,18
Headline and diluted headline earnings per share (cents)	83,48	22,78

* Fifteen months

STATEMENT OF CHANGES IN EQUITY

for the 12 months ended 30 June 2021

	Share capital R'000	Foreign currency translation reserve R'000	Retained income R'000	Total attributable to equity holders of the group/ company R'000	Non-controlling interest R'000	Total equity R'000
Balance at 31 March 2019	474,400	50,240	689,178	1,213,818	395	1,214,213
Total comprehensive income for 15 months	–	97,488	45,630	143,118	3,963	147,081
Total comprehensive income for the period	–	97,488	45,630	143,118	3,963	147,081
Balance at 30 June 2020	474,400	147,728	734,808	1,356,936	4,358	1,361,294
Total comprehensive income for the year	–	(44,071)	188,727	144,656	2,258	146,914
Total comprehensive income for the year	–	(44,071)	188,727	144,656	2,258	146,914
Capital reduction distribution to shareholders	(429,525)	–	–	(429,525)	–	(429,525)
Total contributions by and distributions to owners of company recognised directly in equity	(429,525)	–	–	(429,525)	–	(429,525)
Balance at 30 June 2021	44,875	103,657	923,535	1,072,067	6,616	1,078,683

STATEMENT OF CASH FLOW

for the 12 months ended 30 June 2021

	2021 R'000s	2020* R'000s
Cash flows from operating activities		
Cash utilised in operations	(50,176)	(5,636)
Interest income	16,573	29,042
Dividends received from investments	18,521	23,705
Dividends received capital reduction distribution – associate	–	130,719
Interest paid	(2)	(10,893)
Taxation (paid)/refund received	(2,623)	(3,055)
Investment in financial investments	–	(2,669)
Investment in associates	–	(258,591)
Proceeds from sale of financial investments	123,169	132,803
Proceeds from sale of financial investments (trading activities)	135,221	101,803
Proceeds from sale of financial investments – Hedge Funds	–	39,903
Increase in loan receivable – associates	(7,376)	(76)
Net cash from operating activities	233,307	177,055
Cash flows (utilised in)/from investing activities		
Purchase of plant and equipment and intangible assets	(70)	(4,202)
Net cash (utilised in)/from investing activities	(70)	(4,202)
Cash flows utilised in financing activities		
Capital reduction distribution to shareholders	(429,525)	–
Net cash utilised in financing activities	(429,525)	–
Total cash and cash equivalents movement for the year/period	(196,288)	172,853
Cash and cash equivalents at the beginning of the year/period	745,092	558,294
Effect of exchange rate movement on cash balances	(7,391)	13,945
Total cash and cash equivalents at end of the year/period	541,413	745,092

* Fifteen months

Basis of preparation

These financial statements are prepared in accordance with, and comply with, IFRS and the Financial Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the JSE Listings Requirements. These financial statements are prepared in accordance with the going concern principle under the historical cost basis, other than financial assets measured at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.4 of the Annual Financial Statements.

In January 2020 shareholders were advised that Zarclear had changed its financial year from 31 March to 30 June. Hence the 2020 reporting period was for the 15 months ended 30 June 2020, whilst the current reported year is for 12 months ended 30 June 2021 and are therefore not directly comparable.

Auditor's report

This abridged report is extracted from audited information, but has not itself been audited. The directors take full responsibility for the preparation of the abridged report and for ensuring that the financial information has been correctly extracted from the underlying audited annual financial statements. The audited annual financial statements for the year ended 30 June 2021 have been audited by BDO South Africa Inc., who expressed an unmodified audit opinion. A copy of the auditor's report is available for inspection at the Company's registered office together with the financial statements identified in the auditor's report. 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 statements at the Company's registered office or website at www.zarclear.com.

Acquisitions

No significant acquisitions were made during the year.

By agreement with Nala Empowerment Investment Company Holdings Proprietary Limited ("NEICH"), the 70% shareholder in Nala CILCo, who repurchased from Zarclear, Zarclear's 30% shareholding in Nala CILCO in exchange for Nala CILCo's 72% shareholding in Nala A2X, resulting in Zarclear being the sole shareholder of Nala A2X.

Disposals

The following disposals were made during the financial year under review:

- In November 2020, and March 2021 the Group, through its 100% holding in SCIL sold 3,093,744 and 1,384,703 shares of the holding in Stenprop for a total consideration of R123,2 million bringing the current holding to circa 3.35% of the issued share capital of Stenprop.
- Effective 1 February 2021, Zarclear reached agreement with Nala Empowerment Investment Company Holdings Proprietary Limited, the 70% shareholder in Nala Empowerment Investment Company Proprietary Limited ("Nala CILCo") to the effect that Nala CILCo repurchased from Zarclear, Zarclear's 30% shareholding in Nala CILCO in exchange for Nala CILCo's 72% shareholding in Nala A2X, and subsequently sold all its claims by way of loan account against Nala CILCo to NEICH for R1.

SEGMENTAL INFORMATION

The Group manages the businesses and related strategies in two distinct, but related segments. A portfolio investment segment focused on NAV and a market infrastructure and regulation technology segment which is earnings focused. This latter segment houses the Groups interest in Peresec Technology Solutions (formerly Zarclear Proprietary) (100%), Zarclear Securities Lending (60%) and African Phoenix A2X (100%) (formerly Nala A2X (28%)), (which houses the Group's investment in A2X), and the shareholding in Equity Express (5.47%).

Segments that are regularly reviewed by the board being the chief operating decision-makers in order to allocate resources to segments and to assess their performance are:

- I. Market infrastructure and regulation technology investments (earnings focused)
 - a. Peresec Technology Solutions
 - b. Zarclear Securities Lending
 - c. African Phoenix A2X
 - d. Equity Express
- II. Portfolio Investments (NAV focused)
 - a. Stenprop
 - b. Peregrine Capital managed portfolios
 - i. Managed account
 - ii. Peregrine Offshore Segregated Portfolio (USD) (formerly, SA Alpha Fund)
 - c. Rinjani
 - d. African Phoenix
 - e. Cash

Statement of Comprehensive Income	Market Infrastructure and Regulation Technology Investments R'000s	Portfolio Investments R'000s	Total R'000s
12 months ended 30 June 2021			
Investment income	–	289,831	289,831
Fee income	35,476	–	35,476
Total income	35,476	289,831	325,307
Impairment charges	–	–	–
Operating expenses	(33,014)	(59,165)	(92,179)
Depreciation and amortisation	(317)	–	(317)
Profit from operations	2,145	230,666	232,811
Net interest received	134	16,437	16,571
Interest received	136	16,437	16,573
Interest paid	(2)	–	(2)
Profit before taxation	2,279	247,103	249,382
Taxation	(574)	(57,824)	(58,398)
Profit for the year	1,705	189,279	190,984
Profit for the year attributable to:			
Equity holders of the Company	(552)	189,279	188,727
Non-controlling interests	2,257	–	2,257
	1,705	189,279	190,984

Statement of Comprehensive Income	Market Infrastructure and Regulation Technology Investments R'000s	Portfolio Investments R'000s	Total R'000s
15 months ended 30 June 2020			
Investment income	(28,565)	97,278	68,713
Fee income	52,087	–	52,087
Total income	23,522	97,278	120,800
Impairment charges	(5,863)	–	(5,863)
Operating expenses	(41,073)	(44,050)	(85,123)
Depreciation and amortisation	(297)	–	(297)
(Loss)/Profit from operations	(23,711)	53,228	29,517
Net interest received	443	17,706	18,149
Interest received	596	28,446	29,042
Interest paid	(153)	(10,740)	(10,893)
(Loss)/Profit before taxation	(23,268)	70,934	47,666
Taxation	(1,489)	3,416	1,927
(Loss)/Profit for the period	(24,757)	74,350	49,593
Profit for the period attributable to:			
Equity holders of the Company	(28,720)	74,350	45,630
Non-controlling interests	3,963	–	3,963
	(24,757)	74,350	49,593

Statement of Financial Position	Market Infrastructure and Regulation Technology Investments R'000s	Portfolio Investments R'000s	Total R'000s
30 June 2021			
Segment Assets			
<i>Non-current assets</i>	22,367	494,847	517,214
Plant and equipment	1,235	–	1,235
Goodwill	14,944	–	14,944
Financial investments	2,188	327,129	329,317
Investment in Associates	–	167,718	167,718
Deferred tax	4,000	–	4,000
<i>Current assets</i>	353,714	615,955	969,669
Financial investments	481	88,649	89,130
Trade and other receivables	337,708	1,269	338,977
Taxation	149	–	149
Cash and cash equivalents	15,376	526,037	541,413
Total assets	376,081	1,110,802	1,486,883
Segment Liabilities			
<i>Non-current liabilities</i>	–	57,920	57,920
Deferred taxation	–	57,920	57,920
<i>Current liabilities</i>	336,648	13,632	350,280
Taxation payable	104	–	104
Trade and other payables	336,544	13,632	350,176
Total Liabilities	336,648	71,552	408,200

Statement of Financial Position	Market Infrastructure and Regulation Technology Investments R'000s	Portfolio Investments R'000s	Total R'000s
30 June 2020			
Segment Assets			
<i>Non-current assets</i>	21,065	514,188	535,253
Plant and equipment	1,482	–	1,482
Intangible Assets	–	–	–
Goodwill	14,944	–	14,944
Financial investments	2,188	380,014	382,202
Investment in Associates	–	134,174	134,174
Deferred tax	2,451	–	2,451
<i>Current assets</i>	1,071,813	822,574	1,894,387
Financial investments	481	78,890	79,371
Trade and other receivables	1,064,216	5,559	1,069,775
Taxation	149	–	149
Cash and cash equivalents	6,967	738,125	745,092
Total assets	1,092,878	1,336,762	2,429,640
Segment Liabilities			
<i>Non-current liabilities</i>	–	96	96
Deferred taxation	–	96	96
<i>Current liabilities</i>	1,055,151	13,099	1,068,250
Taxation Payable	604	–	604
Trade and other payables	1,054,547	13,099	1,067,646
Total Liabilities	1,055,151	13,195	1,068,346

INVESTMENTS IN ASSOCIATES

Name of company	% ownership interest 2021	% ownership interest 2020	Carrying amount 2021	Carrying amount 2020
African Phoenix A2X Proprietary Limited (formally Nala A2X Proprietary Limited)	*	28.00%	–	–
Nala Empowerment Investment Company Proprietary Limited	00.00%	30.00%	–	–
African Phoenix Investments Limited	23.50%	23.50%	167,718	134,174
			167,718	134,174

* With effect from 1 February 2021 African Phoenix A2X is 100% owned subsidiary and is reflected as such.

CASH AND CASH EQUIVALENTS

	2021 R'000s	2020 R'000s
Cash and cash equivalents consist of:		
Bank balances in local currency	470,016	716,444
Bank balances in foreign currency	71,397	28,648
	541,413	745,092

REVENUE

	2021 R'000s	2020 R'000s
Income from portfolio investments		
Impairment of investments	–	(28,593)
Dividend income – listed equities	18,521	23,704
Investment return – hedge funds	6,451	(1,199)
Investment return – directly managed investment account	141,014	31,493
Fair value adjustment – private equity	11,619	5,691
Fair value adjustment – listed equities	86,058	(14,777)
Net fair value adjustment – associate (previously listed)	33,544	6,302
Impairment of loans to associates	(7,376)	–
Realised/unrealised gain on foreign currency translation	–	46,092
	289,831	68,713
Revenue from contracts with customers		
Fee income	35,476	52,087
	325,307	120,800

OPERATING PROFIT

Operating profit for the year/period is stated after charging/(crediting) the following, amongst others:

	2021 R'000s	2020 R'000s
Auditor's remuneration – external		
Audit fees	1,812	2,598
Audit fees – prior year overprovision	(650)	–
Advisory services	190	212
	1,352	2,810
Employee costs		
Executive directors' emoluments	5,552	6,978
Non-executive directors' fees	1,408	1,766
Total employee costs	6,960	8,744
Leases		
Variable rentals		
Premises	500	881

The leases for premises were short-term and variable in nature with no contractual obligations and hence no right-of-use asset nor related liability were recorded.

TAXATION

	2021 R'000s	2020 R'000s
Major components of the tax expense/(income)		
Current		
Local income tax – current period	(2,123)	(3,892)
Deferred		
Current year (SA)	(36,686)	11,331
Current year (foreign CFC)	(19,589)	(3,902)
Prior year under provision	–	(1,610)
	(56,275)	5,819
	(58,398)	1,927

NET ASSET VALUE PER SHARE

	2021 R'000s	2020 R'000s
Net asset value per share as at 30 June		
Equity attributable to equity holders	1,072,067	1,356,936
Weighted average number of shares in issue	226,065,696	226,065,696
Net asset value per share (cents)	474	600

NAV per share is calculated on the number of ordinary shares in issue at the end of the financial period and is based on the NAV attributable to outstanding ordinary shareholders. Net asset value is the difference between total assets and total liabilities after accounting for non-controlling interest. Net tangible asset value is determined by adjusting the net asset value for the intangible assets and goodwill.

	2021 R'000s	2020 R'000s
Tangible net asset value per share as at 30 June		
Tangible net asset value	1,057,123	1,341,992
Weighted average number of shares in issue	226,065,696	226,065,696
Net tangible asset value per share (cents)	468	594

EARNINGS AND HEADLINE EARNINGS PER SHARE

	2021 R'000s	2020 R'000s
Basic and diluted earnings per share		
Earnings	188,727	45,630
Weighted average number of shares in issue	226,065,696	226,065,696
Basic and diluted earnings per share (cents)	83,48	20,18
Headline and diluted headline earnings per share		
Earnings	188,727	45,630
Impairment of intangible assets	–	5,863
Headline earnings	188,727	51,493
Weighted average number of shares in issue	226,065,696	226,065,696
Headline and diluted headline earnings per share (cents)	83,48	22,78

RELATED PARTIES

Related party transactions

Transactions with Peresec Prime Brokers (Peresec)

Post the conclusion of the general offer, the shareholders of Zarclear and Peresec Prime Brokers are similar. Peresec Prime Brokers is a financial services firm which provides a range of trading, custodial and prime broking services. The Group utilises the services of Peresec Prime Brokers in relation to its ongoing investment portfolio operations and is also a client/service provider to Peresec Prime Brokers as part of its market infrastructure and regulatory technology services.

RELATED PARTIES (CONTINUED)

Subsidiaries

Transactions between subsidiaries are conducted in the ordinary course of business at arm's-length. Dividends paid by subsidiary companies are recognised in investment income by the holding Company. Dividends received from subsidiaries amounted to R212,6m (2020: R241,7m).

OFF-BALANCE SHEET CREDIT RISK EXPOSURE

Zarclear Securities Lending engages in securities lending activities whereby it borrows securities (scrip) from lenders (typically banks and large security holders) and simultaneously lends those borrowed securities to borrowers. Zarclear Securities Lending does not borrow any securities for proprietary purposes. Borrowers must provide sufficient collateral to Zarclear Securities Lending against the loan of the securities.

Collateral may be provided in the form of either scrip or cash. Cash collateral provided by its borrowers is reflected on balance sheet within Trade and other Payables and in relation to cash collateral provided by Zarclear Securities Lending to its lenders within Trade and other Receivables. Any scrip collateral provided is transferred outright and thus does not reflect on balance sheet.

Given that any scrip provided as collateral to lenders does not reflect on the Zarclear Securities Lending balance sheet this results in off balance sheet credit risk exposure. The lender is obliged to return any collateral provided by Zarclear back to the company on the return of the borrowed securities (closure of the loan). The lender also has the right to realise any collateral provided by Zarclear Securities Lending in the event that Zarclear Securities Lending's borrowers are unable to return any of the borrowed securities.

Zarclear Securities Lending assumes a remote credit risk in that some of the securities lending transactions are offered to lenders (typically banks and large securities holders) with an indemnification of the borrowers' (typically short sellers) obligations arising under the transaction in terms of a Global Master Securities Lending Agreement. It is standard practice that the borrower must provide collateral greater than the value of the scrip loaned in the form of cash or scrip and therefore the risk of a claim is remote. To date there have been no defaults.

As the return of the borrowed securities and the collateral provided must happen simultaneously (one cannot take place without the other), Zarclear Securities Lending only assumes credit risk to the extent that the collateral provided R7,769,036 thousand (2020: R8,356,807 thousand) loan book value R6,341,757 thousand (2020: R7,391,029 thousand).

FAIR VALUE INFORMATION

Fair value hierarchy

The fair value of a financial instrument is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distressed sale.

The fair value of financial instruments traded in active markets is based on unadjusted quoted market prices at reporting date. A market is regarded as active if quoted prices for identical assets or liabilities are readily available from an exchange, dealer, broker, industry Group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the Group is the mid-price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to determine the fair value of the instrument are observable, the instruments are included in level 2.

If one or more significant inputs are not based on observable market data, the instrument is included in level 3.

FAIR VALUE INFORMATION (CONTINUED)

The following table presents the Group's assets that are measured at fair value as at 30 June 2021 and 30 June 2020:

Levels of fair value measurements	2021	2020
Level 1		
Recurring fair value measurements		
Assets		
Financial assets at fair value through profit (loss)		
Listed equities	298,777	361,938
Listed equities, fixed income and other instruments	30,570	17,975
Total financial assets at fair value through profit (loss)	329,347	379,913
Level 2		
Recurring fair value measurements		
Assets		
Financial assets at fair value through profit (loss)		
Hedge fund investments	58,079	60,915
Private equity investments	–	18,076
Investment in associates	–	134,174
Total financial assets designated at fair value through profit (loss)	58,079	213,165
Level 3		
Recurring fair value measurements		
Assets		
Financial assets at fair value through profit (loss)		
Private equity investments	31,051	2,669
Investment in associates	167,718	
Total	198,769	2,669

Reconciliation of assets and liabilities measured at level 3	Opening balance	Purchases/Loans	Impairment	Transfers into Level 3	Closing balance
2021					
Assets					
Financial assets at fair value through profit (loss)					
Private equity investment	2,699	7,376	(7,376)	28,352	31,051
Investments in associates	–			167,718	167,718
Total	2,699	7,376	(7,376)	196,070	198,769
2020					
Assets					
Financial assets at fair value through profit (loss)					
Private equity investments	25,142	2,669	(25,142)		2,669
Total	25,142	2,669	(25,142)		2,669

FAIR VALUE INFORMATION (CONTINUED)

The closing balance of the assets categorised in level 3 are valued at fair value through profit and loss and represents the investment in Equity Express, Rinjani Holdings, Firefly partnership, African Phoenix and AP A2X. The investment in AP A2X was considered to be R nil in the prior financial year as this was determined to be the fair value for the investment. In the current year, the investments in Rinjani Holdings, Firefly partnership and African Phoenix were reclassified from Level 2 to Level 3 as it was determined that a significant element of their valuations was based on unobservable inputs, being directors valuations and representations and shareholder financial information available and interactions with management of the investee.

Valuation processes applied by the Group

Valuation techniques applied and inputs to valuation techniques:

Financial assets at fair value through profit or loss	Valuation technique used to determine fair value	Description of significant observable inputs used in valuation technique	Description of significant unobservable inputs used in valuation technique (not applicable for Level 1)	Value of significant unobservable inputs used in valuation technique (not applicable for Level 1)	Recurring or Non-recurring fair value measurement
Private equity investments – Listed equities, fixed income, other instruments and listed associates	Quoted market prices	Unadjusted quoted prices in an active market of underlying investments	N/A	N/A	Recurring
Private equity investments – unlisted /Investment in associates	Techniques used includes amortised cost of loans receivable and independent valuations and cost	Market related interest rate	Unobservable inputs are mostly directors valuations based on shareholder financial information available and interactions with management of the investee.	R198,258 million	Recurring
Hedge fund investments – unlisted	Quoted market prices	The fair value is determined by an independent administrator, based on the quoted market prices of the underlying investments held by the hedge funds	Unobservable inputs are mostly expenses accruals of the hedge fund entities that are deducted from the sum of the fair values of net investments held by the hedge funds	R6 thousand	Recurring

FAIR VALUE INFORMATION (CONTINUED)

Sensitivities around unobservable inputs:

Unobservable inputs related to the investments disclosed in Level 2 and 3 are mostly directors valuations based on shareholder financial information available and interactions with management of the investee. Should the valuations prove to be inaccurate, a 10% variance to the valuations is determined to be material. The impact of such a variance is as follows:

	Carrying value of financial assets at fair value R'000	Impact of 10% investment valuation on pre-tax profit and loss R'000	Impact of 10% investment valuation on post-tax profit and loss R'000
Private equity investments	30,540	3,054	2,199
Investments in associates	167,718	16,772	12,076
	198,258	19,826	14,275

Offsetting financial assets and financial liabilities

At year ended 30 June 2021 there were no loans/gearing against the unlisted hedge-fund investments and no offsetting took place. (30 June 2020: Nil).

GOING CONCERN

These financial statements have been prepared on the basis of accounting policies applicable to a going concern.

It is the directors' assessment that, while the current market situation remains extremely unpredictable and volatile, there is no reason to believe that the Group does not have the ability to continue as a going concern, supported by strong cash reserves and the ability to take advantage of investing opportunities as they arise.

EVENTS AFTER THE REPORTING PERIOD

Apart from the considerations with regard to the proposed delisting and share repurchase offer as detailed below, there have been no other matters which may have a material impact on the Group subsequent to the reporting date.

On 4 August 2021, shareholders were advised that the board of directors of Zarclear (the "Board") had resolved that, subject to securing the requisite approval from its shareholders in a general meeting and the JSE and A2X approving the Company's delisting application, it would be in the best interests of Zarclear and its shareholders to seek a delisting of the Company's shares from the Main Board of the JSE and A2X under the voluntary delisting regime provided for under the JSE Listings Requirements and the A2X Listings Requirements (the "delisting").

In compliance with the JSE Listings Requirements and the A2X Listings Requirements, the delisting must be accompanied by an offer (that an independent expert has confirmed to be fair to shareholders) which is to be made to holders of all Zarclear's listed securities.

As such, subject to the delisting being approved in accordance with all regulatory requirements, Zarclear intends making an offer to all of its shareholders in terms of section 5.67(B) of the JSE Listings Requirements to voluntarily tender for repurchase all, or only a portion, of their existing shareholding in the Company at an offer price of R4.60 per share (the "share repurchase offer consideration"), which offer will be made in compliance with the relevant provisions of the Companies Act 71 of 2008, the Takeover Regulations promulgated thereunder, the JSE Listings Requirements and the A2X Listings Requirements (the "share repurchase offer").

The delisting and share repurchase offer will be implemented on the basis that shareholders are afforded an opportunity to either monetise their investment in Zarclear at a fair price or to continue to hold shares in Zarclear in an unlisted environment. All shareholders will be entitled to elect to remain invested in Zarclear and any shareholder who does not wish to accept the share repurchase offer may retain its shareholding in Zarclear post the delisting.

EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

A circular containing full details of the share repurchase offer and delisting was distributed to shareholders on 26 August 2021. The circular also includes the opinion of an independent expert in respect of the share repurchase offer, a notice of general meeting of Zarclear shareholders to approve the share repurchase offer and delisting and the applicable salient dates and times relating to the share repurchase offer and delisting.

The delisting and voluntary share repurchase offer do not result in any adjustment to the disclosures made in the financial statements.

SCHEDULE OF INVESTMENTS

Investment	Proportion Owned	Fair Value 30 June 2021 R'000s	Fair Value 30 June 2020 R'000s
Private equity – Listed			
Stenprop Limited	3.35%	298,777	361,938
Private equity – Unlisted			
African Phoenix Investments Limited	23.5%	167,718	134,174
Rinjani Holdings Limited (incorporated in the BVI)	79.4%	28,351	18,075
African Phoenix A2X Proprietary Limited	100%	–	–
Nala Empowerment Investment Company Proprietary Limited	0%	–	–
Equity Express Securities Exchange Proprietary Limited	5.47%	2,188	2,188
Firefly Investments 61	50%	1	1
Catalyst Advisory Proprietary Limited (incorporated in South Africa)	n/a	481	481
Listed Equities, Fixed Income & Other Instruments			
Directly Managed Portfolio	100%	30,570	17,975
Hedge Funds			
Peregrine Capital High Growth Offshore Segregated Portfolio (USD)	8.03%	58,079	60,915