Workforce Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 2006/018145/06)
(JSE Share Code: WKF ISIN: ZAE000087847)
("Workforce" or "the group")

Audited summarised condensed results for the year ended 31 December 2018

Financial highlights
- EBITDA increased by 26,9% to R156,9 million (2017: R123,5 million)
- Profit after tax increased by 8,0% to R104 million (2017: R96,8 million)
- Revenue up by 7,4% to R3,0 billion (2017: R2,8 billion)
- Cash flows from operating activities R54,9 million (2017: R11,4 million)
- EPS up by 8,6% to 46,7 cents (2017: 43,0 cents)
- HEPS up by 6,1% to 45,4 cents (2017: 42,8 cents)
- NAV up by 11,4% to 264 cents (2017: 237 cents)
- Days sales outstanding 53 days (2017: 53 days)
- Acquisition during 2018 Dyna group of companies

Commentary
Vision becoming reality
During 2018, Workforce made considerable progress in realising its vision of becoming a diversified services company with various subsidiaries that provide an extensive range of innovative, integrated and diversified people solutions to all industry sectors in southern Africa. The group has a strong commitment to its core areas of competence yet remains cognisant of the need to identify and move into new areas for growth.

Organisationally, the group realigned its diversification and growth strategy and formed clusters of the different business activities within the group and placed each cluster under the leadership of a cluster executive. In addition, a group executive committee was established to support the CEO in strategic decision-making.

The non-staffing subsidiaries have made remarkable progress in positioning themselves for significant growth to realise and support this strategy. Especially pleasing was the significant growth achieved by our training cluster, mostly from organic growth but also aided by an acquisition effective 1 June 2018, which grew their EBITDA contribution to R49,9 million (2017: R19,4 million). Our non-staffing clusters now represent 37% of total EBITDA contribution to the group's results.

External operating environment
From Workforce's point of view, operating in the current environment was challenging with an economy which is stagnating at close to zero growth, the shedding of jobs, a shortage of capital and the beginning of an increasing interest rate cycle internationally.

In addition, Workforce's core businesses operated under uncertainty stemming from the interpretation of section 198A of the Labour Relations Act, better known as the "deeming provision", which led to cautiousness in the use of certain of our services. This was finalised following the Constitutional Court ruling that ultimately endorsed the legitimacy of the Temporary Employment Services ("TES") industry and supported the concept of the client becoming the employer of the outsourced staff after a period of three months for the purposes of the Labour Relations Act only.

From a regulatory point of view, we welcomed the introduction of the minimum wage legislation and although it initially created a degree of uncertainty, we believe it will, in the longer term, improve the stability of labour in the country and will provide fairer and more sustainable pay structures.

The Employment Tax Incentive ("ETI") remains a significant contributor to group financial results and Workforce is pleased that Government has proposed a ten-year extension to 28 February 2029. This programme incentivises the employment of unemployed youth between the ages of 18 and 29.

Financial performance
EBITDA for the year increased by 26,9% to R156,9 million (2017: R123,5 million), on the back of a 7,4% increase in revenue to R3 014 million (2017: R2 807 million). As a result, EBITDA as a percentage of sales increased to 5,2% (2017: 4,4%). The increase in operating margins is mostly attributable to the significant growth experienced in the training cluster. The training sector typically operates at a much higher net margin compared to the staffing businesses.

The EBITDA contribution from the training cluster increased to R49,9 million (2017: R19,4 million). R8,4 million of this contribution was derived from the Dyna group of companies purchased on 1 June 2018, whilst the balance was purely organic.

The staffing and outsourcing cluster experienced a slow year, due to economic and legislative challenges as outlined above. The net result was a reduction in EBITDA contribution of 6,2% to R152,3 million (2017: R162,4 million).

The healthcare cluster invested in additional infrastructure and human capital which resulted in an 20% increase in operating expenses. This initiative is yielding results with a growth in EBITDA contribution of 22,3% to R23,9 million (2017: R19,6 million).

The financial services cluster invested in new resources with EBITDA contribution increasing by 11,2% to R14,2 million (2017: R12,8 million).

The shared services and central costs improved by 8,0% to R83,5 million (2017: R90,7 million) attributable to management interventions. Fair value adjustments netted a R5,4 million expense, mostly as a result of imputed interest recognised as a result of acquisitions.

This amount netted an income of R10,3 million in the previous year, due to adjustments of the contingent consideration payable on business combinations.

Depreciation and amortisation of non-financial assets remained largely on par with the previous year. R15,6 million (2017: R10,4 million) of this amount relates to the amortisation of intangible assets resulting from acquisitions.

Taxation

As with previous financial years, the group's low tax rate arises primarily from the income derived from the ETI Programme not being taxable, and the learnership allowances claimed in terms of section 12H of the Income Tax Act. ETI has been provisionally extended to 28 February 2029 whilst the 12H learnership allowance will be in place until 1 April 2022. Ongoing initiatives are under way to employ more youth, as well as to train more learners. Going forward, the group's tax rate will continue to be a function of our ability to utilise these two initiatives.

Cash generation

In a financial year which saw South Africa slip into a technical economic recession, with certain clients experiencing financial pressure, Workforce was nevertheless able to deliver a cash conversion ratio of 61% (2017: 38%) and generated cash flows from operating activities of R54,9 million. A noteworthy achievement is the steady improvement in the interest cover ratio since 2015, despite paying R144,4 million in cash for acquisitions since 2015.

The group's strategy to improve cash flow continues to be driven by initiatives to improve the EBITDA to sales ratio on a sustainable basis, along with good working capital management. This translates into a healthy return on capital employed, underpinned by cash generation. The group's days sales outstanding remained at 53 days (2017: 53 days). Unimpaired overdue debtors as a percentage of the total debtors' book, after consideration of IFRS 9 adjustments, deteriorated slightly to 9%, (2017: 3%). Return on total capital employed improved to 18,2% (2017: 16,8%). Various strategies are being implemented by our cluster heads to improve gross margin management, reduce operating costs and better manage working capital.

Funding

The group secured an acquisition funding facility of R30 million, which enabled the acquisition of the Dyna group training businesses in June 2018. Additional funding of R15 million, secured by our micro-lending book, was obtained during the financial year under review allowing us to expand the business of Babereki in Botswana. Workforce remains encouraged that external funders support the group's acquisitive and organic growth strategies.

Gearing

Workforce has a debt to equity ratio of 0,54 compared to the previous year's 0,52. The marginal difference in this ratio occurred despite the R79,3 million increase in liabilities as a result of the Dyna group acquisition. Our interest cover ratio improved to 5,14 (2017: 4,17).

Change in accounting standards: IFRS 9

The group applied IFRS 9 for the first time in 2018. The new standard does not change the credit quality of trade and other receivables, but results in the earlier recognition of credit losses by the group. IFRS 9 has been applied retrospectively. The net effect of the above change, which was calculated together with the assistance of a JSE Limited ("JSE") accredited IFRS adviser, was a reduction of R43 million in opening retained earnings, and a corresponding reduction in the opening value of our trade and other receivables of R79,3 million, which represents a reduction of 8,4% in the value of the underlying assets.

Outlook

From what is set out above, the management of Workforce believe that the group is in the process of establishing a structure that will enable sustainable growth in all the segments of the business and which will enable Workforce Holdings Limited to act as a holding company of investments in different segments within the people services sector of the economy. We look forward to the numerous infrastructure projects, both in South Africa and in neighbouring countries, in which Workforce is able to become a meaningful, relevant and significant player.

Technology developments will set us apart in the acquisition of contracts and benefit the group in the management of our clients' business in terms of productivity and welfare.

We remain optimistic that the group will fare well in the current economy, hopeful of a smooth election and leadership transition to follow. This will stabilise the country's political environment, diminish uncertainty and in this context, the outlook is for satisfactory growth for the group.

Appreciation

We would like to thank all members of staff and their management as well as executive and non-executive directors for their significant contribution to the management of the company and its growth. We could not have achieved the year that we have, with all the difficult circumstances that prevailed, without the people involved in our business.

John Macey	Ronny Katz	Willie van Wyk
Independent chairman	Chief executive officer	Financial director

26 March 2019

Group statement of financial position
as at 31 December 2018

	Notes	2018 R'000	2017 R'000
Assets			
Non-current assets		350 687	251 912
Property, plant and equipment	7	20 266	23 559
Goodwill		191 230	134 480
Intangible assets	8	74 128	44 247
Deferred tax assets		58 757	44 251
Other financial assets		6 306	5 375
Current assets		783 521	744 246
Trade and other receivables		734 787	714 389
Inventories		4 965	3 546
Taxation		2 221	763
Cash and cash equivalents	9	41 548	25 548
Total assets		1 134 208	996 158
Equity and liabilities			
Equity		603 020	542 345
Equity attributable to owners of the parent		605 829	543 806
Stated capital		234 051	234 051
Treasury shares		(11 158)	(7 658)
Fair value through other comprehensive income		752	923
Foreign exchange differences on translation of foreign operations		549	–
Equity-settled employee benefits reserve		9 288	6 793
Retained earnings		372 347	309 697
Non-controlling interests		(2 809)	(1 461)
Non-current liabilities		107 933	38 173
Financial liabilities		87 585	26 407
Deferred tax liabilities		20 348	11 766
Current liabilities		423 255	415 640
Trade and other payables		141 535	136 914
Financial liabilities		281 720	278 726
Total equity and liabilities		1 134 208	996 158

Group statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 R'000	Restated 2017 R'000
Revenue		3 014 446	2 807 890
Cost of sales		(2 323 153)	(2 172 461)
Gross profit		691 293	635 429
Other income		278	1 032
Operating costs		(534 634)	(512 887)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")		156 937	123 574
Fair value adjustments		(5 360)	10 365
Depreciation and amortisation of non-financial assets		(25 179)	(26 080)
Finance income		2 829	1 486
Finance costs		(25 626)	(23 360)
Profit on sale of subsidiary		2 822	–
Profit before taxation		106 423	85 985
Taxation		(1 854)	10 819
Profit after tax		104 569	96 804
Other comprehensive income after tax			
Items that are reclassified to profit or loss:		549	–
Exchange differences on translating foreign operations		549	–
Items that are not reclassified to profit or loss:		(171)	461
Fair value gain through other comprehensive income financial assets		(171)	461
Total comprehensive income for the year		104 947	97 265
Profit for the year attributable to:			
Owners of the parent		105 917	98 542
Non-controlling interests		(1 348)	(1 738)
		104 569	96 804
Total comprehensive income attributable to:			
Owners of the parent		106 295	99 003
Non-controlling interests		(1 348)	(1 738)
		104 947	97 265
Earnings per share (cents per share)			
Basic earnings per share	10	46,7	43,0
Diluted earnings per share	10	45,7	41,2

Group statement of changes in equity
for the year ended 31 December 2018

Attributable to owners of the parent

Foreign Equity-

	Share capital and premium R'000	Treasury shares R'000	Fair value reserve R'000	currency trans-lation reserve R'000	settled employee benefits reserve R'000	Retained earnings R'000	Total R'000
Balance at 1 January 2017	241 867	(9 330)	462	–	2 337	211 155	446 491
Recognition of share-based payments	(7 816)	–	–	–	5 227	–	(2 589)
Buy-back of shares	–	(3 124)	–	–	–	–	(3 124)
Issue of ordinary shares under employee share option plan	–	4 796	–	–	(771)	–	4 025
Total comprehensive income for the year	–	–	461	–	–	98 542	99 003
Balance at 1 January 2018 as previously reported	234 051	(7 658)	923	–	6 793	309 697	543 806
Recognition of IFRS 9 adjustment (refer to note 14)	–	–	–	–	–	(43 267)	(43 267)
Balance at 1 January 2018 restated	234 051	(7 658)	923	–	6 793	266 430	500 539
Recognition of share-based payments	–	–	–	–	2 495	–	2 495
Buy-back of shares	–	(3 500)	–	–	–	–	(3 500)
Sale of subsidiary (refer to note 16)	–	–	–	–	–	1 383	1 383
Total comprehensive income for the year	–	–	(171)	549	–	104 534	104 912
Balance at 31 December 2018	234 051	(11 158)	752	549	9 288	372 347	605 829

	Non-controlling interests R'000	Total equity R'000
Balance at 1 January 2017	277	446 768
Recognition of share-based payments	–	(2 589)
Buy-back of shares	–	(3 124)
Issue of ordinary shares under employee share option plan	–	4 025
Total comprehensive income for the year	(1 738)	97 265
Balance at 1 January 2018 as previously reported	(1 461)	542 345
Recognition of IFRS 9 adjustment (refer to note 14)	–	(43 267)
Balance at 1 January 2018 restated	(1 461)	499 078
Recognition of share-based payments	–	2 495
Buy-back of shares	–	(3 500)
Sale of subsidiary (refer to note 16)	1 439	2 822
Total comprehensive income for the year	(2 787)	102 125
Balance at 31 December 2018	(2 809)	603 020

Group statement of cash flows
for the year ended 31 December 2018

	Notes	2018 R'000	Restated 2017 R'000
Cash generated from operations before net working capital changes		135 425	103 111
Cash generated from operations	11.1	158 858	128 860
Finance income		2 829	1 486
Finance costs		(25 626)	(23 360)
Settlement of share-based payments		–	(4 513)
Taxation paid	11.2	(636)	638
Increase in net working capital	11.3	(80 496)	(91 706)
Cash flows from operating activities		54 929	11 405
Cash flows from investing activities		(69 258)	(57 611)
Property, plant and equipment acquired – maintaining operations	7	(6 742)	(8 969)
Proceeds on disposal of property, plant and equipment		132	1 109
Dividend income		278	1 032
Intangible assets acquired – maintaining operations	8	(13 670)	(7 645)
Net cash flow on acquisition of business combinations	11.4	(49 256)	(43 138)
Cash flows from financing activities		30 329	(3 375)
Repayment of borrowings		(2 086)	(5 535)
Proceeds from borrowings		35 915	488
Payment for buy-back of shares		(3 500)	(3 124)
Proceeds on disposal of shares		–	4 796
Net change in cash and cash equivalents		16 000	(49 581)
Cash and cash equivalents at the beginning of the year		25 548	75 129
Cash and cash equivalents at the end of the year		41 548	25 548

Notes to the summarised consolidated results
for the year ended 31 December 2018

1. Nature of operations and general information

Workforce Holdings Limited ("the company") is a holding company incorporated in South Africa. The registered address and principle place of business is disclosed under corporate information in the integrated annual report. The principal activities of the group are human capital solutions that include temporary employment services, permanent placement recruitment, training and skills development, contractor on-boarding, healthcare and wellness, disability solutions, financial services, lifestyle benefits and business process outsourcing solutions.

2. Basis of preparation

The summary group financial statements are prepared in accordance with the requirements of the JSE Listings Requirements for preliminary financial statements and the requirements of the Companies Act applicable to summary financial statements. The summary financial statements were 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 ("APC") and the Financial Pronouncements as issued by the Financial Reporting Standard Council ("FRSC"), and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The summarised consolidated results for the year ended 31 December 2018 were compiled under the supervision of Willie van Wyk, the group financial director. The summarised consolidated results have been prepared in accordance with the IFRS and have been applied consistently with the accounting policies in the annual financials statements for the year ended 31 December 2018.

3. Audit opinion

The group annual financial statements for the year ended 31 December 2018 have been audited by the group's auditors, Crowe JHB, and their unqualified audit report is available for inspection at the registered office of the group. This summarised report is extracted from audited information but is not itself audited. The directors take full responsibility for the preparation of these consolidated results and the financial information has been correctly extracted from the underlying annual financial statements.

4. Posting of integrated annual report and notice of annual general meeting

The integrated report for the year ended 31 December 2018 will be available on the group's website at www.workforce.co.za on 29 March 2019.

Audited summarised condensed results for the year ended 31 December 2018 including notice of annual general meeting is expected to be mailed to shareholders on 29 March 2019.

5. Events after reporting date

A dividend of R3 399 689 was declared before the financial statements were authorised for issue but not recognised as a distribution to owners during the period under review.

Dividend declaration

A dividend of 1,5 cents per ordinary share was declared as follows for the year ended 31 December 2018:

	2019
Declaration date	Tuesday, 26 March
Last day to trade cum dividend	Monday, 6 May
Ex dividend date	Tuesday, 7 May
Record date	Friday, 10 May
Payment date	Monday, 13 May

Share certificates may not be dematerialised or rematerialised during the period Tuesday, 7 May 2019 to Friday, 10 May 2019, both days inclusive.

In terms of the Listings Requirements of the JSE Limited the following additional information is disclosed:

- This is a dividend as defined in the Income Tax Act, 1962, and is payable from income reserves;
- The South African dividend tax ("DT") rate is 20%;
- The DT to be withheld by the company amounts to 0,3 cents per share;
- Therefore, the net dividend payable to shareholders who are not exempt from DT is 1,2 cents per share, while the gross dividend of 1,5 cents per share is payable to those shareholders who are exempt from DT;
- The issued share capital of the company at the declaration date comprises 243 731 343 ordinary shares including 17 085 379 treasury shares. The issued share capital, excluding treasury shares, at the declaration date is comprised of 226 645 964 shares;
- The company's registration number is 2006/018145/06; and
- The company's income tax reference number is 9210/286/16/8.

6. Principal accounting policies

The group has adopted all the new, revised or amended accounting pronouncements as issued by the International Accounting Standards Board ("IASB") which were effective for the group from 1 January 2018. The following standards had an impact on the group:

- IFRS 9: Financial Instruments ("IFRS 9"); and see note 14
- IFRS 15: Revenue from Contracts with Customers ("IFRS 15"). See note 14.

		2018			2017	
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
7. Property, plant and equipment						
Computer equipment	10 067	(5 319)	4 748	28 328	(21 765)	6 563
Industrial equipment	7 248	(4 765)	2 483	8 636	(6 057)	2 579
Land and buildings	2 700	–	2 700	2 700	–	2 700
Leasehold improvements	866	(247)	619	1 736	(1 175)	561
Motor vehicles	5 540	(2 596)	2 944	10 005	(5 550)	4 455
Office equipment	7 216	(3 097)	4 119	18 265	(14 194)	4 071
Training manuals	5 405	(2 752)	2 653	9 807	(7 177)	2 630
	39 402	(18 776)	20 266	79 477	(55 918)	23 559

The carrying value of property, plant and equipment can be reconciled as follows:

	Computer equipment R'000	Industrial equipment R'000	Land and buildings R'000	Leasehold improvements R'000
Carrying value at 1 January 2017	4 140	1 872	2 700	130
Additions	5 166	1 060	–	534
Disposals	(22)	–	–	(6)
Acquired through business combinations	718	686	–	–
Depreciation	(3 439)	(1 039)	–	(97)
Carrying value at 31 December 2017	6 563	2 579	2 700	561
Additions	2 537	1 247	–	242
Disposals	(21)	(5)	–	–
Acquired through business combinations	76	–	–	–
Depreciation	(4 407)	(1 338)	–	(184)
Carrying value at 31 December 2018	4 748	2 483	2 700	619

	Motor vehicles R'000	Office equipment R'000	Training manuals R'000	Total R'000
Carrying value at 1 January 2017	3 693	2 827	2 653	18 015
Additions	3 099	1 177	1 032	12 068
Disposals	(317)	(24)	(147)	(516)
Acquired through business combinations	421	985	–	2 810
Depreciation	(2 441)	(894)	(908)	(8 818)
Carrying value at 31 December 2017	4 455	4 071	2 630	23 559
Additions	88	1 666	962	6 742
Disposals	(62)	(1)	–	(89)
Acquired through business combinations	–	73	–	149
Depreciation	(1 537)	(1 690)	(939)	(10 095)
Carrying value at 31 December 2018	2 944	4 119	2 653	20 266

All depreciation charges are included in "Depreciation and amortisation of non-financial assets" in the statement of comprehensive income. No property, plant and equipment has been impaired during the year (2017: Nil).

The net book value of motor vehicles held under instalment credit agreements at 31 December 2018 amounted to R2 402 542 (2017: R3 785 842). Motor vehicles acquired under instalment credit agreements amounted to R Nil (2017: R3 099 000). The instalment sales relate primarily to motor vehicles.

A 100% interest in Dyna group was acquired on 1 June 2018, in order to expand the group's skilled artisan and technical segments in the engineering industry. Property, plant and equipment to the value of R149 000 was acquired as part of the business combination.

The directors have determined that the residual value of the buildings is equal to or exceeds the carrying value, therefore no depreciation has been provided for this category.

The group has no further contractual commitments to acquire property, plant and equipment at reporting date.

		2018			2017	
	Cost R'000	Accumulated amortisation R'000	Carrying value R'000	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
8. Intangible assets						
Brands	82	(6)	76	3 209	(3 209)	–
Client relationships	42 194	(27 842)	14 352	31 522	(15 260)	16 262
Computer software	74 733	(45 069)	29 664	62 146	(45 081)	17 065
Training course accreditations	20 620	(2 406)	18 214	–	–	–
Development costs	11 822	–	11 822	10 920	–	10 920
	149 451	(75 323)	74 128	107 797	(63 550)	44 247

The carrying amounts of intangible assets can be reconciled as follows:

	Brands R'000	Client relationships R'000	Computer software R'000	Training course accreditations R'000	Development costs R'000	Total R'000
Carrying value at 1 January 2017	756	14 067	15 755	–	8 552	39 130
Additions	–	–	1 677	–	2 368	4 045
Disposals	–	–	(39)	–	–	(39)
Acquired through business combinations	–	12 012	2 761	–	–	14 773
Additions from internal development	–	–	3 600	–	–	3 600
Amortisation	(756)	(9 817)	(6 689)	–	–	(17 262)
Carrying value at 31 December 2017		16 262	17 065	–	10 920	44 247
Additions	82	–	1 355	–	12 233	13 670
Additions from internal development	–	–	11 331	–	(11 331)	–
Acquired through business combinations	–	10 672	3	20 620	–	31 295
Amortisation	(6)	(12 582)	(90)	(2 406)	–	(15 084)
Carrying value at 31 December 2018	76	14 352	29 664	18 214	11 822	74 128

The above amortisation expense is included in "Depreciation and amortisation of non-financial assets" in the statement of comprehensive income. No intangible assets have been impaired during the year (2017: Nil). Computer software is mostly internally generated.

A 100% interest in Dyna group was acquired on 1 June 2018, in order to expand the group's skilled artisan and technical segments in the engineering industry. Intangibles to the value of R31 295 000 was acquired as part of the business combination.

The group has no further contractual commitments to acquire intangible assets at reporting date. No restrictions exists over intangibles assets.

9. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2018 R'000	2017 R'000
Cash at bank and in hand	41 525	25 488
Short-term deposits	23	60
	41 548	25 548

10. Earnings per share

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2018 R'000	2017 R'000
Profit attributable to equity shareholders of the parent company (R'000)	105 917	98 542
Weighted average number of ordinary shares in issue ('000)	226 856	229 336
Diluted weighted average number of shares in issue ('000)	231 634	238 973
Basic earnings per share (cents)	46,7	43,0
Diluted earnings per shares (cents)	45,7	41,2
The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average number of ordinary shares in issue ('000)	226 856	229 336
Shares deemed to be issued for no consideration in respect of:		
Employee options	4 778	9 637
Weighted average number of ordinary shares in the calculation of diluted earnings per share	231 634	238 973
Headline earnings per share		
The earnings used in the calculation of headline earnings per share are as follows:		
Profit attributable to equity shareholders of the parent company (R'000)	105 917	98 542
Headline earnings adjustment (R'000)	(2 822)	(400)
Gain on disposal of property, plant and equipment (R'000)	–	(555)
Sale of subsidiary (R'000)	(2 822)	–
Tax effects of adjustments (R'000)	–	155
Total headline earnings (R'000)	103 095	98 142
Weighted average number of shares in issue ('000)	226 856	229 336
Headline earnings per share (cents)	45,4	42,8

11. Notes to the statement of cash flows

11.1 Cash generated from operations

Profit before taxation	106 423	85 985
Interest income	(2 829)	(1 486)

Other income	(278)	(1 032)
Finance costs	25 626	23 360
Adjusted for non-cash items:		
Gain on disposal of property, plant and equipment	–	(555)
Depreciation and amortisation of non-financial assets	25 179	26 080
Loss/(gain) arising on financial liability at fair value through profit or loss	5 360	(10 385)
Foreign exchange differences on translation of foreign operations	549	–
Expense recognised in respect of cash-settled share-based payment	(3 667)	1 666
Expense recognised in respect of equity-settled share-based payment	2 495	5 227
	158 858	128 860
11.2 Taxation paid		
Charged to profit or loss	(1 854)	10 819
Adjusted for deferred tax	2 256	(9 210)
Movement in taxation balance	(1 038)	(971)
	(636)	638
11.3 Working capital changes		
Change in trade and other receivables	(80 047)	(100 527)
Change in inventories	(1 419)	(486)
Change in trade and other payables	970	9 307
	(80 496)	(91 706)
11.4 Net cash flow on acquisition of business combinations		
Net cash outflow on the acquisitions of business combination - refer to note 13.1.5	(28 888)	(21 959)
Net cash outflow on the acquisitions of subsidiaries	(20 368)	(21 179)
	(49 256)	(43 138)

11.5 Equity-settled share-based payments

Employees received shares in settlement of the equity-settled share-based payment scheme. The employees were given the option of retaining the shares they were granted, or selling their shares on the open market. The company sold the shares on the employees' behalf and paid to them the proceeds from the sale.

	1 January 2018	Cash flows	Non-cash flows	31 December 2018
11.6 Changes in liabilities arising from financing activities				
Non-current treasury share loan	7 783	–	262	8 045
Interest-bearing borrowings	258 037	(7 652)	–	250 385
Instalment sales liabilities	3 066	(721)	–	2 345
	268 886	(8 373)	262	260 775

12. Segment reporting

During the reporting period, the group re-organised its segments and formed six business clusters comprising the different business activities, and placed each cluster under an independent management team. As the formation of these clusters has been in transition since late last year, our financial segmental reporting for the 2018 year will not reflect the new cluster structure identically, but is structured as follows:

- Staffing and outsourcing (includes recruitment and Africa) - comprising temporary employment services, functional outsourcing, permanent recruitment, executive search, specialist staffing, payroll management, HR and IR consulting and turnkey staffing solutions.
- Training - comprising accredited short courses, skills programmes, full qualifications, learnerships and apprenticeship programmes, adult education training and contractor on-boarding.
- Financial services - comprising death and disability cover, funeral cover, hospital cover, day-to-day medical insurance and financial and mobile products and services.
- Healthcare - comprising recruitment and placement of medical professionals for hospitals and frail-care homes, primary and occupational healthcare services, employee health and wellness programmes and health risk assessment.

These reporting segments better represent the current core trading of the group and allows for simple understanding and communication of the performance of the business.

These segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

Due to the above change in reporting segments, the prior year's segment information has been restated.

Segment information can be analysed as follows for the reporting periods under review:

	Staffing and outsourcing R'000	Training R'000	Financial services R'000	Healthcare R'000
2018				
Segment revenues	2 437 008	230 909	101 873	244 461
Inter segment revenue	27 894	16 187	–	1 582
Cost of sales	(2 001 994)	(111 317)	(39 364)	(174 508)
Inter-segment cost of sales	(25 875)	–	–	(62)
Operating costs	(282 880)	(69 833)	(48 242)	(45 938)
Inter-segment operating costs	(1 958)	(16 186)	–	(1 582)

Other income	128	141	–	23
EBITDA	152 323	49 901	14 267	23 976
Fair value adjustment	–	(885)	884	–
Depreciation and amortisation of non-financial assets	(2 742)	(3 082)	(1 221)	(1 511)
Finance income	853	1 908	42	24
Finance costs	(2 573)	(1 549)	(12 413)	(2 241)
Profit on sale of subsidiary	–	–	–	–
Segment profit/(loss) before tax	147 861	46 293	1 559	20 248
Capital expenditure	2 446	3 761	143	1 494
Segment total assets	447 020	89 475	240 358	23 202
Segment total liabilities	(43 166)	(48 302)	(298 921)	(2 706)
Net segment assets/(liabilities)	403 855	41 173	(58 562)	20 497

	Shared Services and Central costs R'000	Consoli-dation entries R'000	Total R'000
2018			
Segment revenues	195	–	3 014 446
Inter segment revenue	–	(45 663)	–
Cost of sales	4 030	–	(2 323 153)
Inter-segment cost of sales	–	25 937	–
Operating costs	(87 741)	–	(534 634)
Inter-segment operating costs	–	19 726	–
Other income	(14)	–	278
EBITDA	(83 530)	–	156 937
Fair value adjustment	(5 359)	–	(5 360)
Depreciation and amortisation of non-financial assets	(1 030)	(15 594)	(25 179)
Finance income	2	–	2 829
Finance costs	(6 850)	–	(25 626)
Profit on sale of subsidiary	–	2 822	2 822
Segment profit/(loss) before tax	(96 767)	(12 772)	106 423
Capital expenditure	12 719	31 293	51 856
Segment total assets	519 538	(185 386)	1 134 208
Segment total liabilities	(191 726)	53 632	(531 188)
Net segment assets/(liabilities)	327 812	(131 754)	603 020

	Staffing and outsourcing R'000	Training R'000	Financial services R'000	Healthcare R'000
2017				
Segment revenues	2 357 165	169 400	83 778	195 733
Inter-segment revenue	23 085	17 681	1 474	–
Cost of sales	(1 928 908)	(73 374)	(29 207)	(137 958)
Inter-segment cost of sales	(22 400)	(8 566)	–	–
Operating costs	(266 799)	(76 621)	(41 740)	(38 175)
Inter-segment operating costs	(685)	(9 115)	(1 474)	–
Other income	940	92	–	–
EBITDA	162 398	19 497	12 831	19 600
Fair value adjustment	–	(3 465)	2 206	–
Depreciation and amortisation of non-financial assets	(2 583)	(3 372)	(1 838)	(1 960)
Finance income	547	869	38	11
Finance costs	(1 242)	(2 605)	(991)	(480)
Segment profit/(loss) before tax	159 120	10 924	12 246	17 171
Capital expenditure	9 737	8 599	1 891	2 954
Segment total assets	519 019	110 711	220 262	24 587
Segment total liabilities	(116 768)	(88 885)	(262 785)	(3 845)
Net segment assets/(liabilities)	402 251	21 826	(42 523)	20 742

	Shared Services and Central costs R'000	Consoli-dation entries R'000	Total R'000
2017			
Segment revenues	1 814	–	2 807 890
Inter-segment revenue	–	(42 240)	–
Cost of sales	(3 014)	–	(2 172 461)
Inter-segment cost of sales	–	30 966	–
Operating costs	(89 552)	–	(512 887)
Inter-segment operating costs	–	11 274	–
Other income	–	–	1 032
EBITDA	(90 752)	–	123 574
Fair value adjustment	11 624	–	10 365

Depreciation and amortisation of non-financial assets	(5 866)	(10 435)	(26 080)
Finance income	21	-	1 486
Finance costs	(18 042)	-	(23 360)
Segment profit/(loss) before tax	(103 015)	(10 435)	85 985
Capital expenditure	2 103	12 012	37 296
Segment total assets	312 728	(191 149)	996 158
Segment total liabilities	(21 992)	40 462	(453 813)
Net segment assets/(liabilities)	290 736	(150 687)	542 345

Geographical information
The group's revenue from external customers and information regarding its segment assets (non-current assets excluding financial instruments, deferred tax assets and other financial assets) by geographical location are immaterial.

Information about major customers
No single customers contributed 10% or more to the group's revenue in either 2018 or 2017.

13. Business combinations

13.1.1 Business acquired

2018	Principle activity	Date of acquisition	Portion of business acquired %	Consideration transferred R'000
Dyna Training and Industrial Development Proprietary Limited	This entity designs, conceptualises, formulates and produces training programmes and related materials and owns all the intellectual property that it licensed to the training providers within the Dyna group and Dyna franchises.	1 June 2018	100	30 532
Dyna Training Proprietary Limited	This entity is a franchise involved in marketing and selling the Dyna training programmes in the Western Cape territory.	1 June 2018	100	9 713
Dyna Training Namibia Proprietary Limited	This entity is a franchise involved in marketing and selling the Dyna training programmes in Namibia and the remaining SADC territory, excluding South Africa.	1 June 2018	100	22 822
NQ Plus Networks Proprietary Limited	This entity undertakes all the training assessment and moderation functions for the Dyna group and its franchises as well as conducting training learnerships.	1 June 2018	100	16 291
				79 358

Workforce has obtained control of the above mentioned entities by acquiring 100% of the equity and voting rights in each of these entities. The Dyna group was acquired in order to grow Workforce's training segment by providing leadership, supervisory and management training programmes in addition to the existing training programmes currently offered.

		Dyna Industrial Training and Development R'000	Dyna Training R'000	Dyna Training Namibia R'000	NQ Plus Networks R'000	Total R'000
13.1.2	Consideration transferred					
	Cash	13 129	4 177	9 815	7 006	34 127
	Contingent consideration	17 401	5 536	13 008	9 286	45 231
	Total	30 530	9 713	22 823	16 292	79 358
13.1.3	Contingent consideration					
	Second payment	1 947	620	1 456	1 039	5 062
	Third payment	3 486	1 109	2 606	1 860	9 061
	Fourth payment	5 269	1 676	3 938	2 812	13 695
	Top-up payment	6 699	2 131	5 008	3 575	17 413
	Total additional amount	17 401	5 536	13 008	9 286	45 231
	Interest raised on future payments	1 239	1 237	1 239	1 239	4 954
		18 640	6 773	14 247	10 525	50 185

Under the contingent consideration arrangement for the Dyna group companies, Workforce is obliged to pay an amount of up to R5 060 886 subject to the Dyna group of companies achieving an agreed upon operating profit for the 12 months ending 31 May 2019, an amount of up to R9 060 112 subject to the acquired Dyna group of companies achieving an agreed upon operating profit for the 12 months ending 31 May 2020 and an amount of up to R13 695 622 subject to the acquired Dyna group of companies achieving an agreed upon

operating profit for the three-year period exceeding R42 016 084, an additional payment of up to R17 413 968 may also be payable. These payments are all calculated using agreed upon formulae. The directors believe that these payments are probable.

		Dyna Industrial Training and Development R'000	Dyna Training R'000	Dyna Training Namibia R'000	NQ Plus Networks R'000	Total R'000
13.1.4	Assets acquired and liabilities recognised at the date of acquisition					
	Non-current assets	20 815	8 266	2 618	126	31 825
	Property, plant and equipment	33	74	9	33	149
	Intangible assets	20 622	8 063	2 609	–	31 294
	Deferred tax asset	160	129	–	93	382
	Current assets	2 418	968	1 654	1 947	6 987
	Trade and other receivables	649	263	142	271	1 325
	Loans and other receivables	–	–	–	1	1
	Loan to shareholder	–	–	–	2	2
	Taxation	–	–	420	–	420
	Cash and cash equivalents	1 769	705	1 092	1 673	5 239
	Non-current liabilities	(6 845)	(2 665)	(2 372)	(1 051)	(12 933)
	Shareholders' loans	(1 071)	(386)	(1 641)	(1 051)	(4 149)
	Operating lease liabilities	–	(21)	–	–	(21)
	Deferred tax liability	(5 774)	(2 258)	(731)	–	(8 763)
	Current liabilities	(1 466)	(763)	(21)	(1 021)	(3 271)
	Trade and other payables	(606)	(598)	(21)	(665)	(1 890)
	Taxation	(860)	(165)	–	(289)	(1 314)
	Provisions	–	–	–	(67)	(67)
	Total	14 922	5 806	1 879	1	22 608

The receivables acquired (principally trade receivables) in this transaction with a fair value of R1 325 000 for Dyna group is equivalent to the gross contractual amount. All contractual cash flows are expected to be collected.

		Dyna Industrial Training and Development R'000	Dyna Training R'000	Dyna Training Namibia R'000	NQ Plus Networks R'000	Total R'000
13.1.5	Net cash outflow on acquisition of subsidiaries					
	Consideration paid in cash	13 129	4 177	9 815	7 006	34 127
	Less: Cash and cash equivalent balances acquired	(1 769)	(705)	(1 092)	(1 673)	(5 239)
	Total	11 360	3 472	8 723	5 333	28 888
13.1.6	Goodwill arising on acquisition					
	Consideration transferred	30 530	9 713	22 823	16 292	79 358
	Less: Fair value of identifiable net assets acquired	(14 922)	(5 806)	(1 879)	(1)	(22 608)
	Goodwill arising on acquisition	15 608	3 907	20 944	16 291	56 750

Goodwill arose on the acquisition of the Dyna group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of the expected synergies, revenue growth and future market share. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill in the Dyna group acquisition is expected to be deductible for tax purposes.

Impact of acquisitions on the results of the group
Revenue from the above acquisition amounted to R16 441 628 and profit before tax of R8 474 556 for the period under review. Had these business combinations been effective at 1 January 2018, the revenue of the group from operations would have been R24 583 563 and profit before tax would have been R8 912 486.

14. Changes in accounting policies
Adoption of new and revised International Financial Reporting Standards ("IFRS")

New and amended standards adopted by the group

IFRS 9: Financial Instruments ("IFRS 9")

The group has adopted IFRS 9 with a date of application of 1 January 2018 which resulted in changes in accounting policies. The company has applied transitional relief and opted not to restate prior periods.

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

While there have been no changes to the measurement of the financial instruments with the application of IFRS 9, the naming conventions have changed.

The table below depicts the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the group's financial assets and liabilities as at 1 January 2018:

	IAS 39	
Financial instrument	Measurement	Classification R'000
Other financial assets: listed shares	Available-for-sale	2 770
Other financial assets: investment in cell captive	Fair value through profit and loss	2 605
Trade and other receivables	Loans and receivables	714 389
Cash and cash equivalents	Loans and receivables	25 548
Trade and other payables	Other financial liabilities	141 535

	IFRS 9	
Financial instrument	Measurement	Classification R'000
Other financial assets: listed shares	Financial assets at fair value through other comprehensive income	2 770
Other financial assets: investment in cell captive	Financial assets at fair value through profit and loss	2 605
Trade and other receivables	Financial assets at amortised cost	685 438
Cash and cash equivalents	Financial assets at amortised cost	25 548
Trade and other payables	Financial liabilities at amortised cost	141 535

The adoption of IFRS 9 has impacted the way impairment of financial assets is calculated by the introduction of the expected credit loss model. This affects the group's loans as well as its trade receivables and advances measured at amortised cost.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses ("ECL") - the ECL model. This replaces IAS 39's incurred loss model. Instruments within the scope of the new requirements included loans and other debt type financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income ("FVOCI") and trade receivables measured under IFRS 15.

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

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

Trade and other receivables

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

The company assesses impairment of trade receivables on a portfolio basis grouping those that possess shared credit risk characteristics. These have then been grouped based on the days past due. The company has therefore concluded that the expected loss rates calculated on the trade receivables are a reasonable approximation of the loss rates.

The group makes use of the general approach in accounting for the expected credit losses on advances. The group assesses the ECLs on the advances through the use of a three-stage approach. ECLs are determined for the next 12 months in stage 1, and over the lifetime of the advance in stages 2 and 3.

At 1 January 2018 the life time expected loss provision for trade receivables and advances is as follows:

Amounts in R'000	Accounts receivable	Advances	Total

IFRS 9 loss provision	48 023	93 273	141 296
IAS 39 loss provision	19 072	62 515	81 587
Difference*	28 951	30 758	59 709
Tax effect of difference	7 830	8 612	16 442
Nett difference	21 121	22 146	43 267

* In our interim results, the amount recorded in the retained earnings due to the impairment provision application was R30 758 000. During the year our impairment process was refined and improved. The difference between the amount recorded as an adjustment in our interim results and in our annual financial statements is due to the improved method of determining the expected losses.

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the company financial liabilities were not impacted by the adoption of IFRS 9.

IFRS 15: Revenue from contracts from customers ("IFRS 15")
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18: Revenue, IAS 11: Construction contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control at a point in time requires judgements.

IFRS 15 introduced a five-step approach to revenue recognition. The requirement to recognise the significant financing component separately from the transaction price did impact the contracts for the sale of goods where the contracts exceed a period of 12 months. The group has elected to apply the practical expedient model not to separate the significant financing components from contracts where the expected period between the contract recognition and payment is less than 12 months for all other contracts. The standard requires the group to recognise the performance obligation over time or at a point in time, which did not affect the group's recognition, except as noted in the table below.

The group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (ie 1 January 2018). Accordingly, the information presented for 2017 has not been restated - ie it is presented as previously reported under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative figures.

The impact on the group is as follows:

Revenue type	Transfer of control	Changed from IAS 18
Services	Over time or point in time dependent on the service being delivered.	No
Customer loans	Over time	No
Sale of goods	Point in time for delivery of handsets and over time for financing services as interest is earned.	Yes, significant financing component adjustments now separated from the revenue.

Revenue now separated to be recognised at a point in time when the handset is delivered and over time for the financing provided on the sales.

15. Financial instruments

Recognition and derecognition

Financial instruments are recognised when the group becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments (other than those at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss.

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. Where the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the financial asset and an associated liability for amounts it may have to pay. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

15.1 Financial assets

Classification and initial measurement of financial assets

Financial assets, are classified into the following categories:

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

The classification is determined by both:
- The group's business model for managing the financial asset; and
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs or finance income.

Subsequent measurement

Financial assets at amortised cost

Financial assets are measured at amortised cost where the group's business model is to hold the financial assets and collect its contractual cash flows and the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Discounting is omitted where the period between the service and the expected payment date is less than 12 months and the effect of discounting is immaterial. The group's advances, trade and receivables and cash and cash equivalents fall into this category of financial instruments.

Cash and cash equivalents comprise cash on hand, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Advances

Advances are non-derivative financial assets with fixed payments that are not quoted in the active market. The advances arise when the group provides money or goods directly to a debtor through the lending services and sale of goods. These advances are in the form of personal unsecured loans and are paid back in fixed equal instalments. Origination fees and monthly service fees that are integral to the effective interest rate are capitalised to the value of the loan and amortised to profit or loss over the contractual life of the loan using the effective interest rate method.

Advances are measured at amortised cost using the effective interest rate method, less any impairment losses through the use of an allowance account whereby the amount of the losses are recognised in profit or loss.

The significant financing component on the sale of goods is recognised using the effective interest method over the period of the contract.

Financial assets at fair value through profit or loss ("FVTPL") - mandatory

The group holds an investment in an unconsolidated structured entity in the form of a cell captive.

This investment does not fall within the business model to "hold to collect" or "hold to collect and sell" and its contractual cash flows are not solely payments of principal and interest. It is therefore accounted for as a financial asset mandatorily measured at FVTPL.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

Financial assets at fair value through other comprehensive income ("FVTOCI")

The group has elected to designate its equity investments in listed shares at FVTOCI. This is an irrevocable election permitted where the instruments meet the definition of equity under IAS 32: Financial Instruments: Presentation and are not held for trading.

Dividends received on these investments are recognised in profit or loss. Any gains or losses recognised in other comprehensive income ("OCI") will not be reclassified to profit or loss upon derecognition of the asset.

Impairment of financial assets

The group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss.

ECLs are probability weighted estimates based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables and advances, where the carrying amount is reduced through the use of an allowance account. When the trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss.

Changes to the carrying amount of the allowance account are recognised in profit and loss.

Trade and other receivables
The group uses an allowance account to recognise its credit losses on trade and other receivables. It applies the simplified approach of recognising lifetime ECLs for the trade receivables. The group applied a practical expedient in measuring the expected credit loss, using a provision matrix in determining the impairment. This matrix uses the historical credit loss, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast conditions at the reporting date. Historically, the recoverability of the accounts receivable has been impacted by large losses in some of the acquired entities. We believe that these historical losses have been cleared and do not expect the high loss rates to continue.

These credit losses are the expected shortfalls in contractual cash flows, contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Advances
The group uses an allowance account to record its credit losses on advances. It applies the general impairment approach in determining the ECLs. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Due to the nature of the advances, the group considers an advance in default when they are handed over to the legal process. However, in certain cases, the group may also consider an advance to be in default when internal or external information indicates that the group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the group. An advance is written off when there is no reasonable expectation of recovering the contractual cash flows.

The group has established a policy to perform an assessment, at the end of each reporting period, of whether an advance's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the group groups its advances into stage 1, stage 2 and stage 3, as described below(the advances can alternate between stages):
- Stage 1: When advances are first recognised, the group recognises an allowance based on 12-month ECLs. Stage 1 advances also include facilities where the credit risk has improved, and the advance has been reclassified from Stage 2. The advances included within Stage 1 are those for temporary employees that are currently working, and the payments are paid from their salaries consistently.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the group records an allowance for the life time ECLs. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3. The advances included within this stage are those that the group still manages on a portfolio basis. Based on the history of the group, these might include advances where the client has not made payments, mainly due to non-employment. This is considered to increase the credit risk of the client, but advances are still expected to be recovered through a debt management process.
- Stage 3: Loans considered credit-impaired. The group records an allowance for the life time ECLs.

The advances can move between stages based on their performance, ie an advance in Stage 2 in the current year can move to a Stage 1 loan in the next period if the lender's risk decreases, for example, the lender recovers and makes regular payments again.

The entity considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower enters the legal stage of the advance management process. At this time the loans are managed individually.

The ECL calculations are performed on a portfolio basis, grouping the advances into those with similar credit risks and within those portfolios, using statistics derived from a five-year historical past performance of that portfolio, validated by external borrowers and taking into account any changes to collection procedures and projected future market conditions.

15.2 Financial liabilities
Financial liabilities at amortised cost
The company's financial liabilities include trade and other payables.

Financial liabilities are measured at fair value, and where applicable, adjusted for transaction costs.

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

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

15.3 Fair value estimation

A number of the group's accounting policies and disclosures require the measurement of fair values. The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The classification into different levels is based on the extent that quoted prices are used in the calculation of fair value and the levels have been defined as follows:
- Level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- Level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

	Investment in cell captive	Contingent consideration	Total
Reconciliation of level 3 fair value measurements			
As at 31 December 2018			
Opening balance	2 605	(25 562)	(22 957)
Gain/(loss) in profit or loss*	211	(8 403)	(8 192)
Additions	-	(79 358)	(79 358)
Release on liability	-	46 351	46 351
Closing balance	2 816	(66 972)	(64 136)
As at 31 December 2017			
Opening balance	400	(17 406)	(17 006)
Gain/(loss) in profit or loss	2 205	6 844	9 049
Additions	-	(21 326)	(21 326)
Release on liability	-	6 326	6 326
Closing balance	2 605	(25 562)	(22 957)

* Included in fair value adjustments in profit or loss.

16. Disposal of subsidiary

On 22 August 2018, the group disposed of its interest in Qunu Staffing Proprietary Limited. The net assets of Qunu Staffing Proprietary Limited at the date of disposal were as follows:

	R'000
Property, plant and equipment	82
Trade receivables	3 333
Cash and bank balances	48
Deferred tax asset	802
Trade payables	(7 092)
Gain on disposal	2 827
Total consideration	-

There were no disposals of subsidiaries made in 2017. The impact of Qunu Staffing Proprietary Limited on the group's results in the current year is a loss of R854 361.

17. Reclassification of prior year presentation

Certain reclassification has been made to the prior period's condensed consolidated statement of comprehensive income in order to enhance the comparability to the current period's financial results. The recognition of fair value adjustments has subsequently been disclosed separately in the group statement of comprehensive income and the group statement of cash flows resulting in certain line items being reclassified.

	Previously reported 31 December 2017 R'000	Restated 31 December 2017 R'000	Adjustment R'000
Group statement of comprehensive income			
Fair value adjustments	10 365	-	10 365
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	133 939	123 574	10 365
Fair value adjustments	-	10 365	(10 365)
Depreciation and amortisation of non-financial assets	(26 080)	(26 080)	-
Finance income	1 486	1 486	-
Finance costs	(23 360)	(23 360)	-
Profit before taxation	85 985	85 985	-
Group statement of cash flows			

Cash flows from operating activities	15 918	11 405	4 513
Cash flows from investing activities	(60 710)	(57 611)	(3 099)
Cash flows from financing activities	(4 789)	(3 375)	(1 414)
Net change in cash and cash equivalents	(49 581)	(49 581)	–
Cash and cash equivalents at the end of the year	25 548	25 548	–

Executive directors
RS Katz
WP van Wyk

Non-executive directors
JR Macey
KN Vundla
S Thomas
I Ross
S Naidoo

Designated Adviser
Merchantec Proprietary Limited trading as Merchantec Capital

Company secretary
S van Schalkwyk

Registered office
The registered office, which is also its
principal place of business, is:
11 Wellington Road
Parktown
2193

PO Box 11137
Johannesburg
2000

Transfer secretaries
Link Market Services (South Africa) Proprietary Limited
11 Diagonal Street
Johannesburg
2001

Commercial bankers
ABSA Business Bank

Company registration number
2006/018145/06

Website
www.workforce.co.za