



Incorporated in the Republic of Mauritius  
Company number: C148430  
JSE share code: AIL  
ISIN code: MU0553S00000  
LEI: 378900F086B090C6FB94

## **Summarised Annual Financial Statements** for the year ended 30 June 2020

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# ABOUT THIS REPORT

These Summary Annual Financial statements have been approved by the board of directors. This document provides a summary of the information contained in the ARCI Limited 2020 annual financial statements. It is not the company's statutory accounts and does not contain sufficient information to allow for a complete understanding of the results and state of affairs of the company as would be provided by the full annual financial statements. For further information consult the full annual financial statements, the unqualified auditor's report on those annual financial statements and the directors' report.

## REPORT OF THE AUDITOR

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by PricewaterhouseCoopers Inc. who expressed an unmodified opinion thereon. The audited annual financial statements and the auditors' report thereon are available for inspection at the company's registered office and on the Company's website, [www.arci.mu](http://www.arci.mu).

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

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

## PREPARER AND SUPERVISOR OF ANNUAL FINANCIAL STATEMENTS

The Annual Financial Statements and these summarised financial statements were prepared under the supervision of Karen Bodenstein, Chief Financial Officer, B Compt (Accounting Science).

# KEY HIGHLIGHTS

For the year ended 30 June 2020



**INAV Per Share Increase of 2.1% to R9.54 mainly as a result of the increased value of rain**

(30 June 2019: R9.34)



**IFRS NAV Per Share Increase of 1.3% to R9.57**

(30 June 2019: R9.45)



**Intrinsic Portfolio Value R11 139 million**

(30 June 2019: R9 359 million)

R1 019 million of the increase was funded by Diversified Investments and Financial Services Portfolio debt



**Cash in the ARC Fund of R61 million**

(30 June 2019: R725 million)

Fully underwritten R 750 million Rights Offer announced on 15 September 2020



**rain fair value increase of R479 million**

**rain launched 5G successfully**



**TymeBank has signed on 1.9 million customers**

of which 50% were active at 30 June 2020.



**The ARC Fund's effective share in Alexander Forbes Group Holdings Limited increased to 17.5 %**

# COMMENTARY

For the year ended 30 June 2020



## NATURE OF BUSINESS

African Rainbow Capital Investments Limited (ARC Investments/the Company/ARCI) is a public company which is incorporated in the Republic of Mauritius and holds a Category One Global Business License under the Mauritian Financial Services Act of 2007. It is regulated by the Mauritian Financial Services Commission.

The Company is listed on the Johannesburg Stock Exchange Limited (JSE) and is 51.1% (30 June 2019: 51.1%) owned by African Rainbow Capital Proprietary Limited (ARC) which is in turn 100% owned by Ubuntu-Botho Investments Proprietary Limited (UBI). The ultimate shareholder of UBI is Ubuntu-Botho Commercial Enterprises (Pty) Ltd, the shares of which are held by trusts, all of which, except The Motsepe Foundation, own those shares for the benefit of Dr PT Motsepe and his immediate family. The Motsepe Foundation applies the benefits of its indirect shareholding in ARC for philanthropic purposes. The principal activities of the Company are that of an investment holding company which offers shareholders long-term capital appreciation by indirectly investing in a diversified portfolio of unlisted and listed investments.

ARC Investments is the Limited Partner with a 99.95% interest in the ARC Fund Partnership (the ARC Fund), an *en commandite* partnership which is South African based. Through this fund it directly holds the Diversified Investments Portfolio (non-financial services investments) and indirectly, through its 49.9% interest in African Rainbow Capital Financial Services Holdings Proprietary Limited (ARC Financial Services), the Financial Services Investments. Full details of the structure of the group were disclosed in the Pre-Listing Statement issued on 28 August 2017 and published on the Company's website, [www.arci.mu](http://www.arci.mu). The underlying investments of the ARC Fund are managed by UBI General Partner Proprietary Limited (the General Partner).

## STRATEGY

The vision in the establishment and listing of ARC Investments was to:

- create a Broad-Based Black-controlled investment vehicle of significant scale with an exposure to a diversified portfolio of investments;
- enable investors to invest in the Company and obtain an indirect exposure to a diversified pool of unlisted and listed Broad-Based Black Economic Empowerment (B-BBEE) assets through a listed investment vehicle; and
- enable ARC Investments to access capital markets, if required, to fund future expansion.

The most significant benefit in this regard is access to high quality companies, some of which would ordinarily not be available to investors. In addition to this benefit, investments are in some cases acquired at an appropriate B-BBEE discount where the investment is subject to a B-BBEE lock-in for a contractually agreed period. This further enhances prospective yields.

The UBI Group seeks to utilise its empowerment credentials, financial strength, its strong and experienced leadership team and brand to achieve superior capital appreciation for investors in ARC Investments. For this, UBI is remunerated through the Performance Participation with the conversion of the C-shares into listed A ordinary shares. The alignment of the Company's strategy and the greater UBI vision are achieved through the partnership agreement with the General Partner.

## ARC FUND INVESTMENT STRATEGY

As stated above, the Company effectively invests through its interest in the ARC Fund. By investing in a broad range of sectors and through a variety of unlisted and listed entities, the ARC Fund generally seeks to gain exposure to growth and early-maturity stage businesses in which management teams are appropriately incentivised. The ARC Fund primarily acquires significant minority equity interests in established and start-up businesses that meet one or more of the following criteria:

- Experienced, qualified and capable management.
- A demonstrable track-record.
- Prospect of becoming cash generative in the short to medium term.
- Solid growth prospects.
- Disrupter in the market prospect of synergies with the existing ARC portfolio
- The opportunity to consolidate their respective markets and/or existing businesses within the ARC Fund portfolio.
- Commercial prospects which can be enhanced by having strong B-BBEE credentials.

Where the ARC Fund holds majority or significant minority interests in portfolio companies, the General Partner, where appropriate, seeks to provide broad strategic guidance through representation and participation on the board of directors of such companies. The ARC Fund does not have a target size and may be geared, as appropriate, to meet its investment strategy.

ARC Investments' medium- to long-term objective is to grow its Intrinsic Net Asset Value (INAV) by at least 16% per annum, net of fees. Each investment opportunity is expected to achieve this objective, suitably adjusted for specific risk, on a standalone basis.

The ARC Fund seeks to derive synergies among portfolio companies in the Financial Services Portfolio. Its exposure to financial services entities is through a single investment in ARC Financial Services.

# COMMENTARY *continued*

For the year ended 30 June 2020



For investments in non-financial services businesses within the Diversified Investments Portfolio, the approach is to invest in sound stand-alone businesses which are backed by strong and effective management teams.

The ARC Fund's investment portfolio includes a healthy mix of start-ups, early stage investments and established businesses. The ARC Fund takes a long-term view on its investments. Early stage businesses comprise 42.8% of the ARC Fund's Intrinsic Portfolio Value of R11 139 million and includes businesses such as Rain, TymeBank and Kropz.

## Operating environment

The year under review has been characterised by strained trading conditions, mainly resulting from the contracting economy. This has adversely impacted most of the companies in our portfolio. An already poor performing economy was exacerbated by the sudden onset of the COVID-19 pandemic which led to the announcement of a state of disaster and a National Lockdown on general economic activity. As a result, some of our investee companies generally experienced low consumer, business and investor confidence, all of which was intensified by the impact of COVID-19.

## Going concern and impact of COVID-19

ARC Fund raised a R1 billion two-year revolving Credit Facility from RMB during February 2020, which matures during September 2022. The credit facility bears interest at three month JIBAR plus 2.75%. An amount of R440 million was drawn from the facility at year end.

The financial statements were prepared on the going concern basis. The assets of the company, fairly valued, exceed its liabilities. The directors are of the opinion that the company will continue as a going concern based on forecasts and available resources including cash, unutilised borrowing facilities and the proceeds from the R750 million rights issue (refer to Events after Reporting Period below).

## Impact of COVID-19

The South African Government imposed a National Lockdown for 21 days to contain the spread of COVID-19 in South Africa on 26 March 2020. The National lockdown was extended by a further two weeks beyond the initial 21 days. All non-essential businesses were ordered to close for the duration of the National Lockdown. As part of the National Lockdown, Government announced a risk-adjusted approach to phase in the re-opening of the. Investee companies in the ARC Fund portfolio have all taken appropriate measures to combat the spread of the virus among their employees.

ARC management, as contracted by the UBI General Partner of the ARC Fund will, alongside investee companies' management, continue to proactively measure and manage any potential impacts of the National Lockdown. The collective response to COVID-19 will be within the framework of the Company's policies, local and national health authority requirements and recommendations.

Considering the ARC Fund's diverse portfolio, the National Lockdown resulted in both a positive and negative impact within the portfolio. Some companies experienced an acceleration in business activity, while others unfortunately experienced a marked slowdown during the lockdown period. The adverse impact of COVID-19 on the portfolio is, at this stage, considered to be temporary. We have already seen some businesses experiencing an increased level of business activity to near pre-lockdown levels. As a further pro-active measure, investee companies' management implemented cost containment strategies to weather poor trading conditions. Some investee companies obtained short-term financial support from the ARC Fund to assist with operating capital during this time.

The General Partner continued to operate during the lockdown without any significant issues. Employees of our major investee companies such as Rain, TymeBank and Alexander Forbes continued to mostly work remotely as part of the essential services during the Lockdown period. Key investee companies that were closed during the Lockdown period were Bluespec and Autoboy. As Lockdown regulations ease, all entities work towards getting back to their pre-COVID-19 trading state.

## Performance highlights

The Company's intrinsic investment in the ARC Fund increased by 2.1% from R9 740 million at 30 June 2019 to R9 948 million at year end. The Intrinsic Net Asset Value (INAV) of the Company increased from R9.34 per share at 30 June 2019 to R9.54 per share at 30 June 2020 which also amounts to an increase of 2.1%. Whilst this is significantly below the medium to long-term hurdle rate of 16% per annum, it is indicative of and aligned to market performance in the current economic environment.

The IFRS Net Asset Value (NAV) per share increased from R9.45 per share at 30 June 2019 to R9.57 per share at 30 June 2020.

The ARC Fund's Intrinsic Portfolio Value (IPV) increased by 19% from R9 359 million at 1 July 2019 to R11 139 million at 30 June 2020. Net acquisitions and disposals during the year under review amounted to R1 641 million (2019: R1 130 million). Deferred considerations in respect of acquisitions reduced from R148 million at the beginning of the reporting period to R28 million at 30 June 2020. A total of R 1 019 million of the acquisitions was funded by debt, either in the ARC Fund or in ARC Financial Services. At year end, cash resources available in the ARC Fund for further investments amounted to R61 million (2019: R725 million) not including unutilised facilities.

The annual growth in Intrinsic Portfolio Value for the year was 2.0% which is below the 10% hurdle for the Performance Participation. Consequently, there will be no issue of C-shares or a dilutive impact on ordinary shareholders.



Investment in ARC Fund	Net Asset Value 30 June 19	Net Investment	Net Increase in Net Asset Value	Net Asset Value 30 June 20	Growth in Net Asset Value
<b>Intrinsic Portfolio Value</b>	<b>9 359</b>	<b>1 641</b>	<b>139</b>	<b>11 139</b>	<b>19.0%</b>
Cash in the ARC Fund	725	(560)	(104)	61	(91%)
Debt in Diversified Investments and Financial services portfolios		(1 019)	(18)	(1 037)	100%
Other net liabilities in the ARC Fund	(344)		129	(215)	(37.5%)
<b>Intrinsic Investment in the ARC Fund at FVTPL*</b>	<b>9 740</b>	<b>62</b>	<b>146</b>	<b>9 948</b>	<b>2.1%</b>

Investment in ARC Fund	Net Asset Value 30 June 18	Net Investment	Net Increase in Net Asset Value	Net Asset Value 30 June 19	Growth in Net Asset Value
<b>Intrinsic Portfolio Value</b>	<b>8 148</b>	<b>1 198</b>	<b>13</b>	<b>9 359</b>	<b>14.9%</b>
Cash in the ARC Fund	1 601	(1 248)	372	725	(54.7%)
Other net liabilities in the ARC Fund	(249)	-	(95)	(344)	38.2%
<b>Intrinsic Investment in the ARC Fund at FVTPL*</b>	<b>9 500</b>	<b>(50)</b>	<b>290</b>	<b>9 740</b>	<b>2.5%</b>

\* FVTPL: Fair Value Through Profit or Loss

## Acquisitions and disposals during the period

Acquisitions and disposals during the year under review amounted to R1 976 million (excluding capitalised interest on loan investments) and R335 million respectively. The net acquisitions amount to R1 641 million. The significant acquisitions include:

### Alexander Forbes

ARC Financial Services acquired 193 million shares in Alexander Forbes Group Holdings Limited (AFGH) from Mercer Africa Limited for a total consideration of R1 billion (at R5.25 per share). Post the acquisition of these shares ARC Financial Services concluded the flip-up of its shares in Alexander Forbes Limited into AFGH shares. These two transactions increased ARC Financial Services' shareholding in AFGH from 13.1% to 35.09%. The ARC Fund's effective shareholding in AFGH therefore increased to 17.5%.

### TymeBank

ARC Financial Services injected an additional R750 million into TymeBank during the reporting period as part of the scheduled capital requirements for the new bank. At 30 June 2020 the ARC Fund has an effective ownership interest of 35.18% in TymeBank, being its 49.9% of the 70.5% interest that ARC Financial Services holds in TymeBank. ARC Fund's effective capital contribution to TymeBank was R374 million for the year ended 30 June 2020.

### Kropz Plc

The ARC Fund subscribed for shares amounting to R249 million in Kropz Plc in various tranches during the year. Subsequent to Kropz Plc reaching an agreement with other third-party financiers, the ARC Fund entered into a conditional convertible loan facility of up to US\$ 40 million (not exceeding a maximum of ZAR 680 million) which is required to bring the Elandsfontein phosphate project into production. At 30 June 2020 R140 million of this facility was drawn while the remaining facility is scheduled to be drawn over the next 18 months.

The repayment of the Loan Facility and any interest thereon will be in the form of conversion into ordinary shares in Kropz Plc at a conversion price of 6.75 pence per share. The conversion will occur quarterly.

### Rain

Rain did a capital raise and the ARC Fund followed its rights amounting to R103 million during June 2020. The percentage shareholding in Rain remains the same as other shareholders followed their rights.

# COMMENTARY *continued*

For the year ended 30 June 2020



## Capital Legacy

ARC Financial Services acquired a 25.9% shareholding in specialist financial services firm Capital Legacy during the year. Capital Legacy is a significant provider of services in respect of wills and estate administration. Operating since 2012, the company has identified improved, efficient and cost-effective solutions for the preparation of wills, estate planning and execution.

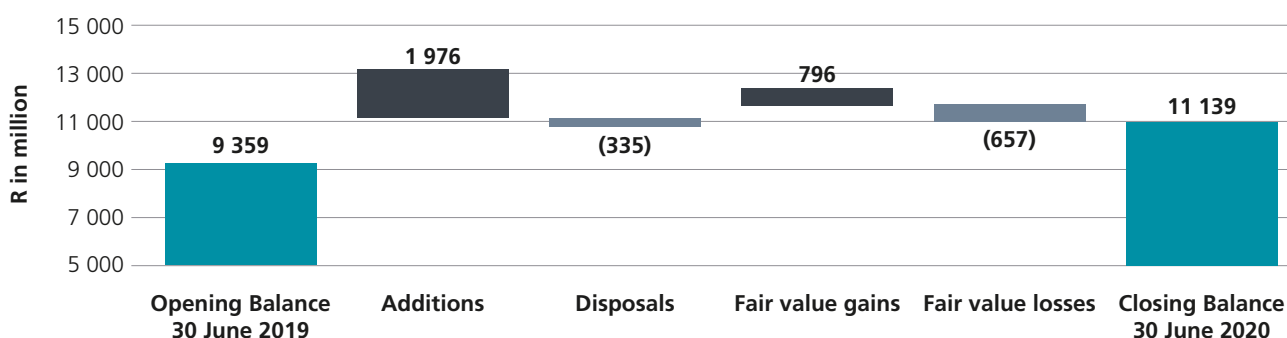
## ARCH Emerging Markets Partners Limited

During the year, ARC Fund has contributed a total of R171 million towards the ARCH Renewable Power Fund as well as the ARCH Equity - Fund Manager. ARCH Emerging Markets Partners Limited (ARCH EM) aims to geographically expand its reach outside South Africa into the rest of the African continent. ARCH EM is a specialist firm focusing on private market opportunities in renewable energy, cold chain solutions and financial services in developing countries. The company is a joint venture between JCH & Partners LLP and ARC.

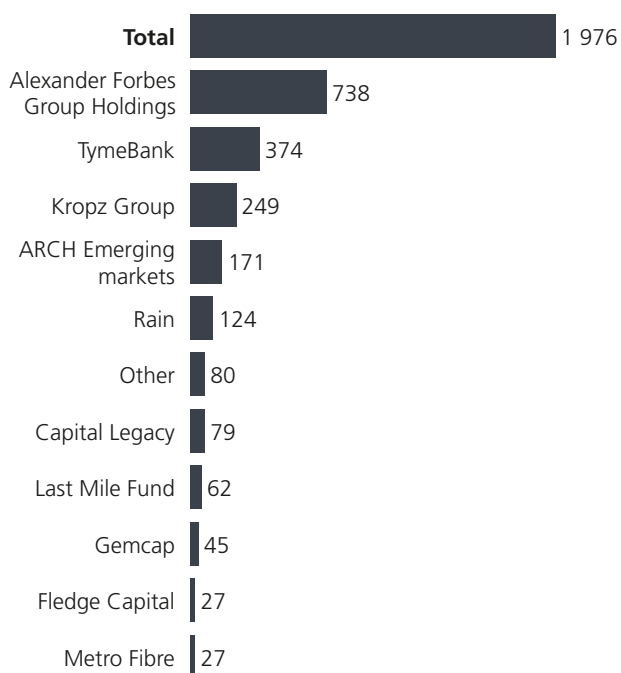
## Santam Limited

During the year ARC Financial Services disposed of its shares in Santam Limited for a total of R120 million, realising a profit of R21 million net of capital gains tax.

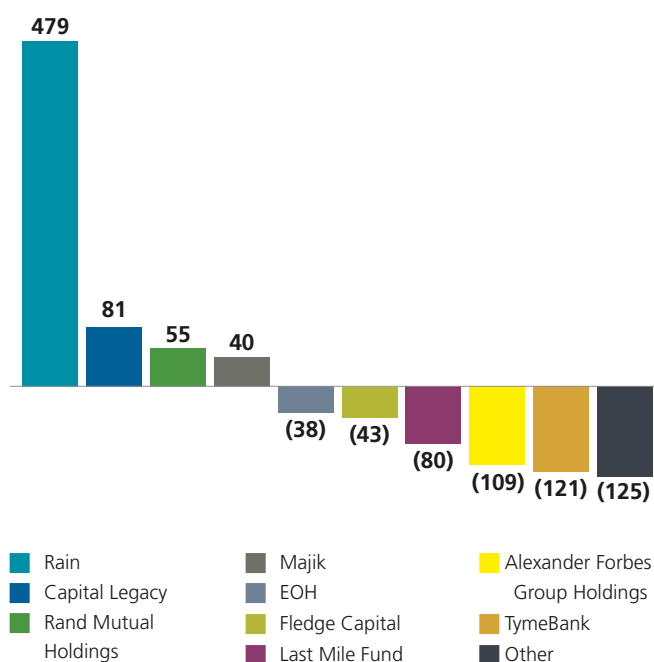
## Portfolio movement for the year ended 30 June 2020



## Additions for the year ended 30 June 2020



## Fair value gains and losses for the year ended 30 June 2020







## Performance Review for the period

The Intrinsic Investment in ARC Fund at FVTPL increased by 2.1%, largely driven by net investments made by the ARC Fund totaling R 1 641 million with net fair value adjustments increasing the net asset value by R139 million.

## Growth in Intrinsic Portfolio Value

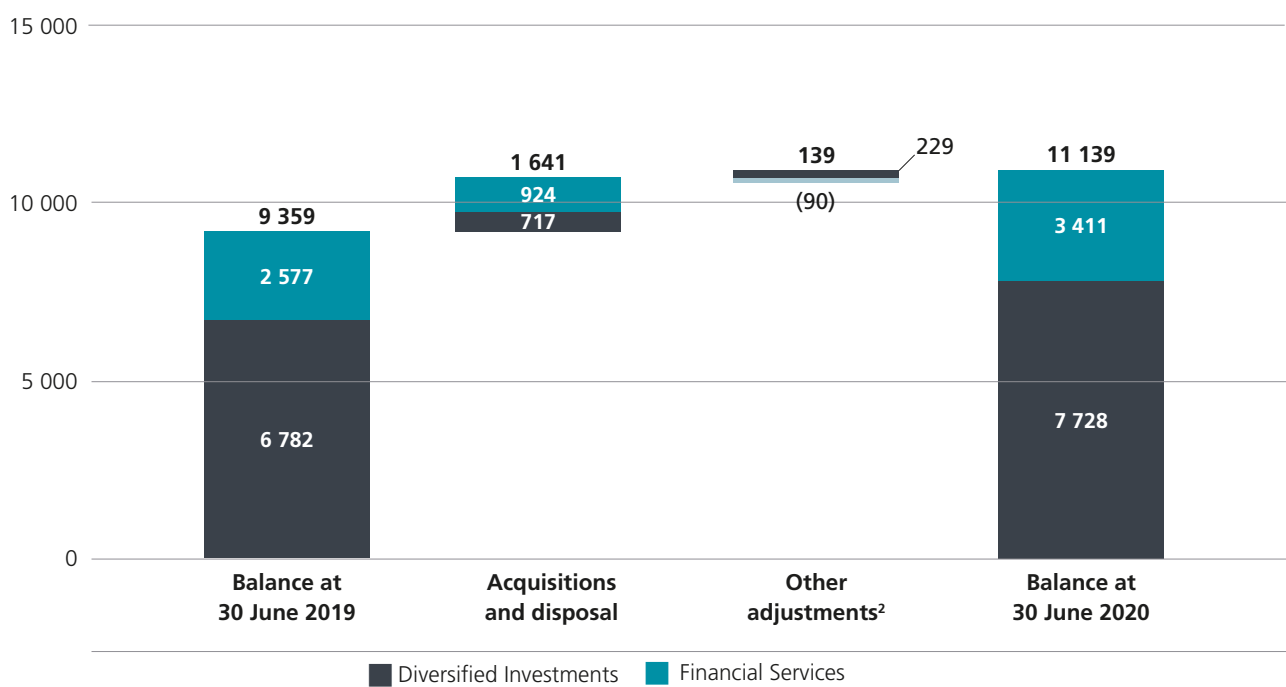
During the year under review the Intrinsic Portfolio Value (IPV) increased by R1 780 million (of which R1 019 million has been funded by debt) from R9 359 million to R11 139 million, being the net impact of acquisitions including deferred consideration and interest capitalised (R1 976 million), disposals in the period (R335 million), fair value write-ups including net foreign exchange gains and profit on disposal of investments (R796 million) and fair value write-downs (R657 million).

Below is a summarised review of the performance of the significant portfolio assets for the Diversified Investments and Financial Services.

A more detailed schedule of all the assets within the ARC Fund Portfolio indicating investment and disposal activities as well as their performance is available on the Company's website [www.arci.mu](http://www.arci.mu).

## PORTFOLIO DESCRIPTION AND REVIEW

### Portfolio movement per sector for the year ended 30 June 2020



<sup>2</sup> Fair value net of expected tax, cash flows, interest, forex and disposal gain/loss

# COMMENTARY *continued*

For the year ended 30 June 2020



## Diversified Investments Portfolio (69.4% of Fund Value, 2019: 72.5%)

The IPV of the Diversified Investments Portfolio increased from R6 782 million at 30 June 2019 to R7 728 million at 30 June 2020, resulting in a 13.9% increase during the year.

Below is a table summarizing the performance of the Diversified Investments Portfolio Assets:

Diversified Investments Portfolio Value	Net Asset Value 30 June 19	Net Investments	Increase in Net Asset Value	Net Asset Value 30 June 20	Growth in Net Asset Value
Telecommunications	2 711	151	491	3 353	
Mining, Construction and Energy	1 469	311	(69)	1 711	
Business Process Outsourcing	1 131	70	(85)	1 116	
Agriculture	423	–	(54)	369	
Property	550	(13)	(1)	536	
Other Diversified Investments	498	198	(53)	643	
<b>Total Diversified Investments Portfolio</b>	<b>6 782</b>	<b>717</b>	<b>229</b>	<b>7 728</b>	<b>13.9%</b>

## Telecommunications (30.1% of Fund Value, 2019: 29.0%)

The IPV of the investments in Telecommunications increased by 23.7 % from R2 711 million at 30 June 2019 to R 3 353 million at 30 June 2020.

### Rain (27.9% of Fund Value, 2019: 26.8%)

Rain is aiming to become a full-service Mobile Network Operator, focusing on data as a primary offering. The major assets constitute spectrum licences, including an allocation in the 1 800 MHz band, along with the other major operators, as well as an allocation in the sought after 2 600 MHz band, which facilitates access to 5G. Rain intends to build a dedicated LTE Advanced network and infrastructure in the metropolitan areas of the country.

Rain has three main income streams. Firstly, it earns roaming income from Vodacom in terms of an infrastructure and services agreement. It secondly earns revenue from 4G data sales and also earns some income on the fixed reseller business which is in the process of being wound down to create capacity to expand the 5G network. The 5G network was launched in September 2019, thereby making South Africa one of the first countries in the world to deploy this new technology. By the end of April 2020, Rain had rolled out 447 5G towers and aims to increase this to 1500 by December 2021. Ultimately more than 2000 5G towers in larger metro areas throughout South Africa are planned, bringing ultra-fast broadband connections to homes and small businesses at an affordable cost.

During the National Lockdown period, Rain experienced a surge in subscriber numbers as people were required to work from home. Economic and social activities have increasingly moved online, including schooling, entertainment and connecting with family and friends. Rain 4G roll-out has also progressed well with 5,500 active sites live as at the end of April.

The ARC Fund's investment in Rain increased from R2 508 million at 30 June 2019 to R3 111 million at 30 June 2020, mainly as a result of a fair value write-up of R479 million (2019: R364 million).

### MetroFibre (2.2% of Fund Value, 2019: 2.2%)

MetroFibre is an internet infrastructure company that provides managed fibre optic broadband connectivity in South Africa. MetroFibre customers consist of service providers, resellers, residential and business properties. Consumers can take advantage of an array of services that are tailored to meet their business needs. MetroFibre is performing in line with expectations. The main objective remains to expand its infrastructure roll-out.

The ARC Fund's investment in MetroFibre increased from R203 million at 30 June 2019 to R242 million at 30 June 2020 as a result of injecting capital of R27 million and a fair value increase of R12 million (2019: gain of R11 million).



## **Mining, Construction and Energy (15.4% of Fund Value, 2019: 15.7%)**

The IPV of the investments in Mining, Construction and Energy increased from R1 469 million at 30 June 2019 to R1 711 million at 30 June 2020.

### **Afrimat (6.9% of Fund Value, 2019: 7.9%)**

Afrimat is a leading Black-empowered supplier to the resources, industrial minerals, mining, road, rail and construction sectors, with a footprint across Southern Africa. The company specialises in open cast mining, industrial minerals and beneficiated mined products.

The ARC Fund investment in Afrimat increased from R738 million at 30 June 2019 to R773 million at 30 June 2020 as a result of a fair value increase of R35 million (2019: fair value increase of R97 million).

### **Kropz Plc (6.6% of Fund Value, 2019: 5.2%)**

The ARC Fund holds 66.5% of the issued share capital in the Kropz Group's holding company, Kropz Plc, which is listed on the London's AIM stock exchange. In addition, the ARC Fund directly holds 26% of Kropz Elandsfontein's issued shares. The ARC Fund provided a funding commitment to Kropz Plc for US\$40 million (limited to R680 million) to fund the completion of the Elandsfontein project. At 30 June 2020, R140 million of this facility was drawn with the remaining balance expected to be drawn over the next 18 months.

The Kropz Group is a nutrient producer with an advanced stage phosphate mining project on the West Coast of South Africa, and exploration assets in the Republic of Congo and Ghana.

Kropz Elandsfontein (Elandsfontein) is a phosphate mine and processing plant situated on the West Coast of South Africa. Commissioning of the mine and plant was initially scheduled towards the end of 2017. Several challenges were encountered, and operations were postponed until additional laboratory and pilot plant testing could be conducted and funding could be procured. Sufficient tests work has been completed and the results confirm that the inclusion of a direct flotation stage in a Direct-Reverse (DR) configuration was required. The DR flotation configuration, also known as the Crago process, is widely deployed in Florida to process sedimentary phosphate ores which contain silica as a gangue mineral. The testing results significantly improved the level of confidence in the performance of the proposed circuit modifications and the production of a saleable product at 31% P2O5 concentration. The envisaged process requires the use of more reagents but will result in higher recoveries and product volumes, resulting in a marginally lower unit operating cost. This, coupled with an increase in the projected long-term phosphate price, has significantly improved the outlook of the project.

The ARC Fund's fair value for its investment in Kropz Group was R734 million as at 30 June 2020. Given the current depressed international phosphate price and the uncertainty regarding the timing of a potential price recovery, a prudent valuation approach has been adopted.

### **Last Mile Fund (1.8% of Fund Value, 2019: 2.4%)**

The Last Mile Fund (LMF) is a Black-owned investment company incorporated to explore opportunities that exist in the broader resource space created and accelerated by B-BBEE legislation. LMF has a number of investments i.e. Mooiplaas Coal, Stahl Cranes, Kepu Group (diesel, tyre and lubricant supplier) and Bohlale Energy (wholesale fuel distribution business).

LMF is exposed to the volatility of the mining sector and in particular, coal mining. Our outlook for this asset is negative resulting in the fair value write-down of R80 million at 30 June 2020 (2019: R51 million). The coal mining company was affected by the depressed coal prices and low demand for export coal. The mine is currently under care and maintenance until the coal price recovers.

### **Global Asset Management Group (0% of Fund Value, 2019: 0.2%)**

The investment in Global Asset Management Group (GAM) was fully impaired during the period under review.

## **Business Process Outsourcing (10.0% of Fund Value, 2019: 12.1%)**

The IPV of the investments in Business Process Outsourcing decreased from R1 131 million at 30 June 2019 to R1 116 million at 30 June 2020. This included an impairment loss of R85 million, mainly as a result of an impairment in Gemcap of R37 million.

### **Gemcap (5.0% of Fund Value, 2019: 5.8%)**

Gemcap is an investment holding company. Some of its significant investments include Payprop SA, Upstream Group, CSG Holdings Limited, Infoslips, Linebooker and Moonstone.

# COMMENTARY *continued*

For the year ended 30 June 2020



Payprop SA (Payprop) is a well-established, market leading residential letting outsourcing business that offers a unique end-to-end rental property management and compliance software platform. Payprop is an automated payment platform system that offers settlement functionality within the real-time banking environment, enabling automation of the entire letting transaction life cycle according to property-specific payment rules set up by clients.

Upstream Group largely consists of Consumer Friend that operates a leading debt review technology platform with all major debt counsellors as its clients.

Linebooker is a transport innovation company that owns technology with the potential to revolutionise trucking.

Moonstone is one of the three largest independent national compliance services providers (and the only registered training and examination body) to the FAIS regulated FSP industry in South Africa. The Moonstone Group currently has three distinct business units, Regulatory Examinations, Outsourced Compliance and Higher Education and Training.

InfoSlips is a platform provider that facilitates interactive document composition and distribution.

The ARC Fund's investment in Gemcap increased from R545 million at 30 June 2019 to R553 million at 30 June 2020, after additional equity contributions amounting to R45 million (non-cash contribution) and a write down of R37 million (2019: increase of R63 million).

## Bluespec (2.3% of Fund Value, 2019: 2.9%)

Bluespec is a holding company comprised of several specialist businesses which collectively aim to transform the motor repair and recovery industry. Business units include Incident Logistics (FirstGroup), Autobody Repair (Renew-it Group), Salvage (Auction Nation), Motor Retail (Daytona Group), Technology (DreamTec) and StraightThrough. Bluespec is 51% Black-owned with WIPHOLD Investment Trust and the ARC Fund as the B-BBEE partners.

The business of Bluespec is focused on the short-term insurance value chain and luxury vehicle sales. The motor industry has experienced challenging trading conditions, resulting in lower volumes and profit margins. Business operations were largely resumed when the Lockdown Regulations were eased in May 2020. BlueSpec management implemented an aggressive cost saving strategy to right size and align the business to current market conditions.

The fair value of the investment was written down by R11 million from R270 million to R259 million at 30 June 2020.

## Other Business Process Outsourcing (2.7% of Fund Value, 2019: 3.4%)

The other portfolio investments include Humanstate, Autoboy, Capital Appreciation and EOH.

## Agriculture (3.3% of Fund Value, 2019: 4.5%)

The IPV of the investments in Agriculture decreased from R423 million to R369 million at 30 June 2020, following a write-down of R54 million.

### Acorn Agri and Food (1.6% of Fund Value, 2019: 2.3%)

Acorn Agri and Food is a long-term investor focusing on food and food processing, agricultural processing and the agricultural value chain. Acorn Agri and Food has the following investments: Lesotho Milling, Montagu Dried Fruits and Nuts, and Overberg Agri Grain Division, Overberg Agri Retail, Overberg Mechanisation, Overberg Financial Services, Overberg Insurance, Overberg Irrigation, Loxton Irrigation, Agpack (supplier of packaging), Boltfast, Bontebok Limeworks and Bredasdorp Abattoir.

The ARC Fund's investment in Acorn Agri decreased in value from R211 million at 30 June 2019 to R174 million at 30 June 2020, mainly as a result of a fair value write-down of R37 million (2019: R66 million).

### RSA (0.8% of Fund Value, 2019: 1.1%)

RSA is a horizontally integrated sales organisation which offers a unique value proposition to the suppliers of fresh produce in the agricultural sector across all channels. RSA has a nationwide footprint represented in all the major metropolitans in South Africa.

The ARC Fund's investment in RSA decreased in value from R106 million at 30 June 2019 to R88 million at 30 June 2020, mainly as a result of a fair value write-down of R18 million (2019: Nil).



### Subtropico (0.9% of Fund Value, 2019: 1.1%)

Subtropico operates in the food and services sector of the agricultural sector, The Group consists of a fresh produce market agent, a leading livestock and game auction business (Vleissentraal), a packaging facility (Farmwise), a shareholding in a specialist insurer (Natsure), and a shareholding in an agri-business with exports exposure (KLK Landbou).

This business has been faced with significant challenges as a result of the National Lockdown. In particular the auction business was negatively impacted following a limit on the number of people who could attend a live auction. This resulted in reduced volumes as well as reduced commission earned. Prior to the National Lockdown, the business experienced a 3-month ban on livestock movement and auctioning as a result of a foot-and-mouth disease outbreak in Limpopo. Management has responded by offering innovative solutions, which include online auctions.

### Property (4.8% of Fund Value, 2019: 5.9%)

#### Majik Property Holdings (2.5% of Fund Value, 2019: 2.7%)

Majik is a private equity structure which invests in commercial real estate in the United Kingdom, through Squarestone, an experienced asset manager with offices in London and Edinburgh. The ARC Fund's investment in Majik increased from R250 million at 30 June 2019 to R277 million at 30 June 2020, largely attributable to foreign exchange gains on the GBP denominated investment.

Majik Investments holds an investment in Squarestone Growth LLP (SSG). SSG is a high yield regional commercial property portfolio managed by Squarestone. The core investment strategy is to acquire well located modern properties at a discount to replacement build cost with demonstrable potential to enhance rental and capital growth through active asset management.

#### Other Property (2.3% of Fund Value, 2019: 3.2%)

The portfolio investments include Val de Vie, ARC Real Estate, ARC Property Development and Barlowpark.

### Other Diversified Investments (5.8% of Fund Value, 2019: 5.3%)

The IPV of the Other Diversified Investments increased from R498 million at 30 June 2019 to R643 million at 30 June 2020. The increase is mainly attributable to additional investment in the ARCH Emerging Market Funds.

### Fledge Capital (4.1% of Fund Value, 2019: 5.0%)

ARC partnered with Fledge Capital to execute smaller investments as there are significant investment opportunities which the ARC Fund is not able to execute due to the size of the investments. Fledge Capital provides funding solutions to private companies within a broad range of industries. Its investments include Safari and Outdoor, WeBuyCars and Better Life.

During the year ended 30 June 2020, ARC followed its rights and subscribed for additional shares in Fledge Capital to ensure that majority ownership was maintained. This investment was fully funded through dividends received from Fledge Capital.

The ARC Fund's investment in Fledge Capital has decreased in value from R469 million at 30 June 2019 to R453 million at 30 June 2020, mainly as a result of a fair value write-down of R43 million (2019: fair value increase of R106 million).

### Financial Services Portfolio (30.6% of Fund Value, 2019: 27.5%)

The IPV of Financial Services Portfolio increased from R2 577 million at 30 June 2019 to R3 411 million at 30 June 2020. Below is a summary performance of the Financial Services Portfolio Categories:

Financial Services Portfolio Value	Net Asset Value 30 June 19	Net Investment	Increase in Net Asset Value	Net Asset Value 30 June 20	Growth in Net Asset Value
Insurance and Asset Management	1 555	530	36	2 121	
Specialist Financial Services	250	15	19	284	
Banking and Digital	772	379	(145)	1 006	
<b>Total Financial Services Portfolio</b>	<b>2 577</b>	<b>924</b>	<b>(90)</b>	<b>3 411</b>	<b>32%</b>

# COMMENTARY *continued*

For the year ended 30 June 2020



## **Insurance and Asset Management (19.0% of Fund Value, 2019: 16.6%)**

The ARC Fund's value in investments in insurance and asset management has increased from R1 555 million at 30 June 2019 to R2 121 million at 30 June 2020. The growth in the portfolio is mainly attributed to the increase in the shareholding of Alexander Forbes Group Holdings Limited (AFGH) as well as the fair value write up in Rand Mutual Holdings.

### **Alexander Forbes (10.9% of Fund Value, 2019: 8.7%)**

ARC Financial Services owns 35.09% of the listed holding company Alexander Forbes Group Holdings Limited (AFGH) after the acquisition of 15% from Mercer and the conversion of its shares in Alexander Forbes Limited (AFL) into AFGH shares during May 2020. The ARC Fund through its 49.9% interest in ARC Financial Services therefore has an effective shareholding of 17.51% in AFGH.

The ARC Fund's investment in AFGH increased from R495 million at 30 June 2019 to R1 218 million at 30 June 2020, mainly as a result of the additional investment and share conversion described under the acquisition and disposal section above.

### **Rand Mutual Holdings (RMH) (2.8% of Fund Value, 2019: 3.1%)**

RMH is a subsidiary of Rand Mutual Assurance (RMA) which was founded in 1894 as a mutual assurance company with the purpose of administering workers' compensation for mining industry employees injured in the course and scope of their employment. The core of RMA's administration business is the receipt, adjudication and administration of workers' compensation claims, including the payment of medical costs, once-off disability payments and the ongoing payment of pensions in the case of severe disability and death.

In the year under review, the deferred consideration raised in the 30 June 2019 financial year was settled, and a fair value gain of R55 million was recognized for the year ended 30 June 2020. The ARC Fund's investment in RMH increased from R289 million at 30 June 2019 to R311 million at 30 June 2020.

### **Other Insurance and Asset Management (5.3% of Fund Value, 30 June 2019: 4.8%)**

The other portfolio investments include Afrocentric, Colourfield, Smart Health Investments, Capital Legacy, Indwe, QED, Global ASP, LifeCheq, Lima Mbeu, National Health Solutions, Khumo Capital, African Rainbow Life and Infund Solutions.

## **Specialist Financial Services (2.5% of Fund Value, 2019: 2.7%)**

The IPV of the investments in Specialist Financial Services has increased by R34 million from R250 million in value at 30 June 2019 to R284 million at 30 June 2020. The increase in IPV in Specialist Financial Services was driven mainly by incremental investments in existing portfolio companies.

The Specialist Financial Services portfolio investments includes Ooba, Sinayo, Bravura, A2X, Constellation Capital, EdgeGrowth and Alternative Prosperity.

## **Banking and Digital (9.0% of Fund Value, 2019: 8.2%)**

This segment represented 9.0% of the ARC Fund value at 30 June 2019 and was valued at R1 006 million at 30 June 2020 (2019: R772 million) with the main asset being TymeBank valued at R927 million.

### **TymeBank (8.3% of Fund Value, 2019: 7.2%)**

TymeBank is a digital bank that leverages the use of digital biometric technology to make banking simple and affordable and is focused on banking the unbanked and under serviced in South Africa.

At 30 June 2020 the bank had on boarded 1.9 million customers, which is ahead of its business plan. The bank is signing up between 3 000 and 3 500 customers per day, with half of the customers actively using their bank accounts. TymeBank is well positioned within the SA banking sector to implement its unique low-cost banking fee model as well as customer experience value propositions.

The impact of COVID-19 on the bank has resulted in the delay in the roll out of its partnership with the Zion Christian Church (ZCC) as well as a change in its unsecured personal lending proposition. Responding to a significant change in market conditions, the bank's management has introduced cost reduction measures, while also focusing on revenue diversification and partnerships activation.

The progress to date, combined with the additional capital that has been injected, results in a fair value of R1.86 billion in ARC Financial Services at 30 June 2020 and therefore R927 million for the ARC Fund.

### **Other Banking and Digital (0.7% of Fund Value, 30 June 2019: 1.0%)**

The other portfolio investments include Tyme Global and the Ethos AI Fund.

## Events after reporting period

### Capital Contribution – TymeBank

ARC Financial Services has contributed additional capital amounting to R182.5 million from its own resources and the ARC Fund therefore did not need to make a capital contribution.

### Fledge Capital share buy back

The ARC Fund sold 622 shares (amounting to 30% of the Fledge issued share capital) to Fledge for an amount of R270 million. After the transaction the ARC Fund's interest in Fledge will be 30%.

### Dividend Income from Alexander Forbes Group Holdings Limited

ARC Financial Services received a dividend of R304 million from Alexander Forbes Group Holdings Limited.

### Sanlam 3rd Party Asset Management

Sanlam signed agreements with ARC Financial Services in respect of a transaction to establish one of the largest black-empowered asset management companies in South Africa. Once this transaction becomes effective, ARC Financial Services will own an approximate 25% economic interest in Sanlam's South African third-party asset management business other than the investment management business conducted by Sanlam Private Wealth (Pty) Ltd and the Sanlam Specialised Finance division. The transaction is subject to regulatory approvals.

### Rights Offer to shareholders

The Board approved a fully committed and underwritten pro rata non-renounceable Rights Offer to Shareholders on 9 September 2020 to raise R750 million through an offer of 272 727 273 Rights Offer Shares at a Rights Offer Price of R2.75, in the ratio of 26.09711 Rights Offer Shares for every 100 Ordinary Shares held at the close of business on Friday, 25 September 2020. The Rights Offer is fully underwritten by ARC.

## BASIS OF PREPARATION

### Statement of compliance

The Summarised Annual Financial Statements have been prepared in accordance the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements of the Mauritian Companies Act 2001, insofar as applicable to Category One Global Business Licensed Company under the Mauritian Financial Services Act, 2007 which is regulated by the Mauritian Financial Services Commission. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the financial statements from which the summary financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous annual financial statements.

These Summarised Annual Financial Statements do not include all the information required pursuant to paragraph 16A(J) of IAS 34. The full Annual Financial Statements are available at the Company's registered office and on the Company's website, [www.arci.mu](http://www.arci.mu).

## APPROVAL

The Summarised Annual Financial Statements for the year ended 30 June 2020 were approved by the Board of Directors of the Company on 14 September 2020 in Mauritius.



**Mark Cyril Olivier**  
Chairman of the Board



**Clive Msipha**  
Chairman of the Audit and Risk Committee



**Karen Bodenstern**  
Chief Financial Officer

# STATEMENT OF FINANCIAL POSITION

As at 30 June 2020



R million	Notes	30 June 2020	30 June 2019
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in the ARC Fund at FVTPL*	5	9 983	9 854
<b>Current assets</b>			
Cash and cash equivalents		19	24
<b>Total assets</b>		<b>10 002</b>	<b>9 878</b>
<b>EQUITY</b>			
Stated capital	6.1	8 903	8 903
Accumulated loss		(98)	(92)
Performance Participation reserve		–	–
Fair value reserve		1 196	1 067
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		1	–
<b>Total equity and liabilities</b>		<b>10 002</b>	<b>9 878</b>

\* FVTPL: Fair value through profit or loss.



# STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2020



R million	Notes	30 June 2020	30 June 2019
Fair value movements on the investment in the ARC Fund at FVTPL*	4.2	129	272
Other income		1	2
Other expenses		(7)	(7)
Performance Participation expense		–	–
<b>Profit before taxation</b>		<b>123</b>	267
Taxation	7	–	–
<b>Profit for the year</b>		<b>123</b>	267
Other comprehensive income for the year		–	–
<b>Total comprehensive income for the year</b>		<b>123</b>	267
<b>Earnings per share:</b>			
Basic earnings per ordinary share (cents)	6.2	12	26
Diluted earnings per ordinary share (cents)	6.2	12	26

\* FVTPL: Fair value through profit or loss.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2020



R million	Notes	Stated Capital	Accumulated Loss	Performance Participation Reserve	Fair Value Reserve	Total Equity
<b>Balance at 30 June 2018</b>		8 832	(131)	115	795	9 611
Total comprehensive income for the year		–	267	–	–	267
Conversion of C shares	6.1	71	–	(71)	–	–
Transfer to accumulated loss		–	44	(44)	–	–
Transfer to fair value reserve		–	(272)	–	272	–
Performance Participation		–	–	–	–	–
<b>Balance at 30 June 2019</b>		<b>8 903</b>	<b>(92)</b>	<b>–</b>	<b>1 067</b>	<b>9 878</b>
Total comprehensive income for the year		–	123	–	–	123
Transfer to fair value reserve		–	(129)	–	129	–
Performance Participation		–	–	–	–	–
<b>Balance at 30 June 2020</b>		<b>8 903</b>	<b>(98)</b>	<b>–</b>	<b>1 196</b>	<b>10 001</b>

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2020



R million	Notes	30 June 2020	30 June 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash utilised in operations before investment activities	8	(5)	(5)
<i>Net cash inflows/(outflows) from operating activities</i>		(5)	(5)
Net increase/(decrease) in cash and cash equivalents		(5)	(5)
Cash and cash equivalents at the beginning of the year		24	29
<b>Total cash and cash equivalents</b>		19	24

# ACCOUNTING POLICIES

For the year ended 30 June 2020



## 1. DEFINITIONS

The following definitions are key to the understanding of the Company's Annual Financial Statements:

### 1.1 IFRS Portfolio Value

Investments in the ARC Fund are reported using IFRS fair value principles.

### 1.2 Intrinsic Portfolio Value (IPV)

The Intrinsic Portfolio Value is determined by the Directors at every reporting period. The Intrinsic Portfolio Value is the IFRS Portfolio Value adjusted for non-IFRS measures as set out in the Segmental Report. The significant non-IFRS measurement differences comprise:

- valuing underlying listed investments on a 30-day volume weighted average price (VWAP) basis (compared to closing spot price), net after expected taxation cash flows; and
- valuing underlying listed investments after recognising B-BBEE discounts on a 30-day VWAP basis (compared to closing spot price), net after expected taxation cash flows.

### 1.3 Intrinsic Net Asset Value (INAV)

Intrinsic Portfolio Value of ARC Investments plus cash and other net assets.

### 1.4 NAV

The net asset value of ARC Investments as reported in note 4.3.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

The Summarised Annual Financial Statements have been prepared in accordance the requirements of the JSE Limited Listings Requirements for provisional reports, and the requirements of the Mauritian Companies Act 2001, insofar as applicable to Category One Global Business Licensed Company under the Mauritian Financial Services Act, 2007 which is regulated by the Mauritian Financial Services Commission. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the financial statements from which the summary financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous annual financial statements.

These Summarised Annual Financial Statements do not include all the information required pursuant to paragraph 16A(J) of IAS 34. The full Annual Financial Statements are available at the Company's registered office and on the Company's website, [www.arci.mu](http://www.arci.mu).

There has been no change to the composition or structure of the reportable segments.

### 2.2 Functional currency and presentation currency

The Company's Summarised Annual Financial Statements are presented in South African Rand (Rand), which is the Company's functional and presentation currency. All financial information presented in Rand has been rounded to the nearest million (R million).

### 2.3 Basis of measurement

The Summarised Annual Financial Statements have been prepared on the historical-cost basis, except for the measurement of financial instruments at fair value.

The going-concern basis has been used in preparing the Summarised Annual Financial Statements as the Directors have a reasonable expectation that the Company will continue as a going concern for the foreseeable future.



## 3. KEY AREAS OF JUDGEMENT

### 3.1 Fair value measurement of the investment in the ARC Fund

The basis of valuation of the Investment in the ARC Fund is dependent on the basis of valuation of all investments in the ARC Fund Portfolio. The basis of valuation of all investments in the ARC Fund Portfolio and consequently the Investment at fair value through profit or loss (FVTPL), is fair value. Fair value is determined at the end of each quarter. All investments are valued in accordance with the valuation policy outlined below.

The sum of the individual instruments plus the cash and net assets in the ARC Fund make up the investment in the ARC Fund. The valuation of the individual assets is in line with IFRS 13, therefore the sum of these represents the IFRS 13 fair value of the investment in the ARC Fund. A minority discount was considered as a result of the company not controlling the ARC Fund, however, this did not impact the value as a result of the strength of the protective rights in the respective shareholder and other agreements.

The General Partner values the investment portfolio in accordance with its valuation policy. The valuation policy considers the International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) and is consistent with the below detailed valuation approach, which will be consistent year on year except where there has been changes in circumstances in relation to an investment, and therefore the impact of such change would be disclosed.

#### 3.1.1 Basis of valuation and approach

The fair value of the underlying investments in the ARC Fund was determined as at the respective measurement date in accordance with the principles of IFRS 13, Fair Value Measurement. Fair value is defined as the price that would be received for an asset in an orderly transaction between willing market participants at the measurement date. A fair value measurement assumes that a hypothetical transaction to sell an asset takes place in the principal market or in its absence, the most advantageous market for the asset.

For *listed investments* which are suitably liquid investments, the available market prices (calculated at the spot rate on measurement date) will be the basis for the measurement of the IFRS Portfolio Value for identical instruments.

Where investments in listed assets are thinly traded, due consideration needs to be given to the fact that the price at which the share trades may not be representative of the fair value of these investments. As such the General Partner may duly consider whether the cost of the investment or the fair value as determined by another valuation approach may not be a better representation of the fair value than the quoted market price on the exchange.

*Unlisted investments* are valued primarily using either an income approach (IA) or a market approach (MA) valuation methodology or a combination of the two approaches. The discounted cash flow (DCF) is the preferred income approach methodology applied. In applying a market approach valuation methodology an appropriate trading multiple or comparable transaction is selected, depending on the specific underlying investment being valued.

The General Partner uses its judgement to select the valuation technique most appropriate for an investment. On a specific investment, a single valuation technique or approach may be more appropriate (e.g. when valuing an asset using quoted prices in an active market for identical assets), however the use of multiple valuation approaches on an investment is encouraged.

If multiple valuation techniques or approaches are used to measure fair value, the results of the various valuation methods are evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

In determining the fair value of an investment, the General Partner uses its judgement. This includes consideration of those specific terms of the investment which may impact its fair value. In this regard, the General Partner would consider the economic substance of the investment, which may take precedence over the strict legal form. The General Partner would take the results of each of the valuation methods applied into account in concluding the final value of an investment.

*Foreign investments* are those considered to be in jurisdictions outside of South Africa. These are valued in the local currency of the country of investment and translated to Rand at the spot rate at the valuation date.

# ACCOUNTING POLICIES *continued*

For the Summarised Annual Financial Statements for the year ended 30 June 2020

**Lack of control/minority interest:** To the extent that an investment is a minority interest and is not able to be easily realised, an appropriate minority discount would be considered. However, to the extent that the ARC Fund has certain rights in respect of an investment (such as minority protections or Board representations) these rights would be considered.

**Restriction on trading / lack of marketability:** To the extent that the ARC Fund is restricted or prevented from disposing of the investment for a period of time, this restriction would be considered in the IFRS Portfolio Value of the investment in arriving at an appropriate lack of marketability discount adjustment. This will include and consider any lock-ins agreed as part of an investment.

## 3.1.2 Income approach methodology

When applying the income approach, the General Partner will consider the appropriateness of any sensitivity and/ or scenario analyses.

## 3.1.3 Discounted cash flow methodology

The discounted cash flow method is used to derive the enterprise value of the investment using reasonable assumptions on the estimations of expected future post-taxation cash flows. The forecast cashflows (free cash flows to the firm) and the terminal value (if applicable to the investment) are discounted to the present value using an appropriate risk adjusted weighted average cost of capital (WACC) as the discount rate. To arrive at the estimate equity value, an adjustment is made for net indebtedness. Where appropriate, an adjustment to the valuation would be made for non-operating assets and liabilities and any surplus or deficit working capital in the investment.

In some valuations (for example, insurance and banking valuations), the use of free cash flow to equity might be preferred. Free cash flows to equity are discounted using an appropriate cost of equity discount rate.

The length of period for which it would remain appropriate to use this valuation technique will depend on the specific circumstances of the investment and is subject to the judgement of the General Partner.

## 3.1.4 Market approach methodology

### *Multiple approach*

If a multiple approach is used, where appropriate, the General Partner would apply an Enterprise Value (EV)/ earnings before interest, taxation, depreciation and amortisation (EBITDA) or price/earnings (P/E) multiple that is appropriate and reasonable, based on comparable companies and taking account of the size, risk profile, country risk and earnings prospects of the underlying company. In other cases, where appropriate, EV/EBITDA and price/book value may also be considered.

### *Comparable transaction approach*

Where comparable transaction data is available and deemed appropriate to use for valuation purposes the comparable transaction approach is considered. The comparable transaction approach looks at recent similar or comparable transactions of the company being valued or a company with similar business model to inform the basis of the valuation. The value of a business is determined by using a similar multiple that was achieved in past completed transactions after adjusting for any lack of marketability, minority or control premiums where appropriate.

The General Partner as the fund manager of the portfolio assets is contractually bound to perform quarterly valuations of the investment portfolio and to report quarterly to the partners of the ARC Fund. The quarterly valuation reports are approved by the Audit and Risk Committee of the General Partner with the support and guidance of the Investment Committee. Whilst due professional judgement is exercised in determining the fair value of these investments, there are inherent limitations in any valuation technique involving securities of the type in which the ARC Fund invests. Therefore, the fair values presented herein may not be indicative of the amount which the ARC Fund could realise in a current transaction.

## 3.2 Control over the ARC Fund

The General Partner directs all the relevant activities of the ARC Fund and is therefore considered to have power over the Fund. The Company does not have a currently exercisable right to remove the General Partner other than for a reasonable cause. Therefore, the Company does not control the ARC Fund. ARC Investments does not have the power to participate in the financial and operating policy decisions of the ARC Fund. Therefore, ARC Investments does not have significant influence over the ARC Fund.

# SEGMENTAL INFORMATION

For the Summarised Annual Financial Statements for the year ended 30 June 2020

## 4. SEGMENTAL INFORMATION

### Accounting policies and choices

The company has determined its operating segments based on investments held. At year end, the company held one investment, the investment in the ARC Fund, for which it has recognised fair value adjustments. The Company therefore has only one operating segment in terms of IFRS 8, Operating Segments. The chief operating decision-makers (CODMs), being the Board of Directors, evaluate the investment in the ARC Fund based on Intrinsic Portfolio Value and fair value movement (which is considered to represent the measure of the segment result) in this Intrinsic Portfolio Value. The IFRS values and Intrinsic values are reconciled in the tables below.

Information of the ARC Fund is also reported to the CODMs for the purpose of assessing segment performance. This is specifically focused on the reporting to the Board of the Company by the General Partner in the ARC Fund through its Investment Committee under the adopted ARC Investments Limited Investment Guidelines.

### Company context in application of accounting policy choices

#### Diversified Investments

These are the non-financial services investments acquired by the ARC Fund for purposes of demonstrated growth potential and the ability to deliver returns above the target return of 16%. These are a combination of growth assets and businesses about to reach steady state. The key factor around the Diversified Investments' strategy is that the ARC Fund partners with industry leaders to ensure the right level of monitoring and oversight is achieved with individuals with the requisite knowledge and experience of the relevant industry. The Diversified Investments' portfolio is further categorised as follows:

- Telecommunications;
- Mining, Construction and Energy;
- Business Process Outsourcing;
- Agriculture;
- Property; and
- Other Diversified Investments.

#### Financial Services

This is the core industry experience of the executive team within the ARC Fund. The investment strategy is to assemble a portfolio of assets that lends itself to synergistical benefits within its ecosystem. To this end, the portfolio is organised into the following categories:

- Insurance and Asset Management;
- Specialist Financial Services; and
- Banking and Digital.

# SEGMENTAL INFORMATION *continued*

For the year ended 30 June 2020

## 4.1 SEGMENTAL PORTFOLIO VALUE MOVEMENTS<sup>1</sup>

Investment (R million)	INTRINSIC				
	Net Intrinsic Portfolio at 30 June 2019	Additions or (Disposal)	Fair Value net of expected tax cash flows, Interest, Forex and Disposal Gain /loss	Net Intrinsic Portfolio at 30 June 2020	Percentage of Fund
<b>Diversified Investments</b>					
<b>Telecommunications</b>	2 711	151	491	3 353	30.1%
Rain	2 508	124	479	3 111	27.9%
MetroFibre	203	27	12	242	2.2%
<b>Mining, Construction and Energy</b>	1 469	311	(69)	1 711	15.4%
Afrimat#	738	–	35	773	6.9%
Kropz Group	485	249	–	734	6.6%
Last Mile Fund	222	62	(80)	204	1.8%
Other Mining, Construction and Energy	24	–	(24)	–	0.0%
<b>Business Process Outsourcing</b>	1 131	70	(85)	1 116	10.0%
Gemcap	545	45	(37)	553	5.0%
Bluespec	270	–	(11)	259	2.3%
Other Business Process Outsourcing	316	25	(37)	304	2.7%
<b>Property</b>	550	(13)	(1)	536	4.8%
Majik	250	(13)	40	277	2.5%
Other property	300	–	(41)	259	2.3%
<b>Other</b>	498	198	(53)	643	5.8%
Fledge Capital	469	27	(43)	453	4.1%
Other Diversified Investments	29	171	(10)	190	1.7%
<b>Agriculture</b>	423	–	(54)	369	3.3%
<b>Total Diversified Investments</b>	<b>6 782</b>	<b>717</b>	<b>229</b>	<b>7 728</b>	<b>69.4%</b>
<b>Financial Services</b>					
<b>Insurance and Asset Management</b>	1 555	530	36	2 121	19.0%
Alexander Forbes Group Holdings#	495	738	(15)	1 218	10.9%
Alexander Forbes Limited	315	(221)	(94)	–	0.0%
Rand Mutual Holdings	289	(33)	55	311	2.8%
Other Insurance and Asset Management	456	46	90	592	5.3%
<b>Banking &amp; Digital</b>	772	379	(145)	1 006	9.0%
TymeBank	674	374	(121)	927	8.3%
Other Banking and Digital	98	5	(24)	79	0.7%
<b>Specialist Financial Services</b>	250	15	19	284	2.5%
<b>Total Financial Services</b>	<b>2 577</b>	<b>924</b>	<b>(90)</b>	<b>3 411</b>	<b>30.6%</b>
<b>Total Fund Invested Portfolio value</b>	<b>9 359</b>	<b>1 641</b>	<b>139</b>	<b>11 139</b>	<b>100.0%</b>

# Denotes a listed entity classified as level 1 fair value hierarchy

<sup>1</sup> The balances presented are net of expected taxation cash flows





Investment (R million)	INTRINSIC				
	Net Intrinsic Portfolio at 30 June 2018	Additions or (Disposal)	Fair Value net of expected tax cash flows, Interest, Forex and Disposal Gain /loss	Net Intrinsic Portfolio at 30 June 2019	Percentage of Fund
<b>Diversified Investments</b>					
<b>Telecommunications</b>	2 280	56	375	2 711	29.0%
Rain	2 144	–	364	2 508	26.8%
MetroFibre	136	56	11	203	2.2%
<b>Mining, Construction and Energy</b>	1 286	646	(463)	1 469	15.7%
Afrimat#	641	–	97	738	7.9%
Kropz Group	455	450	(420)	485	5.2%
Last Mile Fund	133	140	(51)	222	2.4%
Other Mining, Construction and Energy	57	56	(89)	24	0.2%
<b>Business Process Outsourcing</b>	1 245	68	(182)	1 131	12.1%
Gemcap	429	53	63	545	5.8%
Bluespec	509	–	(239)	270	2.9%
Other Business Process Outsourcing	307	15	(6)	316	3.4%
<b>Property</b>	523	1	26	550	5.9%
Majik	238	–	12	250	2.7%
Other property	285	1	14	300	3.2%
<b>Other</b>	372	62	64	498	5.3%
Fledge Capital	342	21	106	469	5.0%
Other Diversified Investments	30	41	(42)	29	0.3%
<b>Agriculture</b>	877	(415)	(39)	423	4.5%
<b>Total Diversified Investments</b>	<b>6 583</b>	<b>418</b>	<b>(219)</b>	<b>6 782</b>	<b>72.5%</b>
<b>Financial Services</b>					
<b>Insurance and Asset Management</b>	1 146	450	(41)	1 555	16.6%
Alexander Forbes Group Holdings#	371	153	(29)	495	5.3%
Alexander Forbes Limited	321	–	(6)	315	3.4%
Rand Mutual Holdings	–	289	–	289	3.1%
Other Insurance and Asset Management	454	8	(6)	456	4.8%
<b>Banking &amp; Digital</b>	158	287	327	772	8.2%
TymeBank	158	240	276	674	7.2%
Other Banking and Digital	–	47	51	98	1.0%
<b>Specialist Financial Services</b>	261	(25)	14	250	2.7%
<b>Total Financial Services</b>	<b>1 565</b>	<b>712</b>	<b>300</b>	<b>2 577</b>	<b>27.5%</b>
<b>Total Fund Invested Portfolio value</b>	<b>8 148</b>	<b>1 130</b>	<b>81</b>	<b>9 359</b>	<b>100.0%</b>

# Denotes a listed entity classified as level 1 fair value hierarchy

1 The balances presented are net of expected taxation cash flows

# SEGMENTAL INFORMATION *continued*

For the year ended 30 June 2020

## 4.1 SEGMENTAL PORTFOLIO VALUE MOVEMENTS

Reconciliation	30 June 2020				
	INTRINSIC net asset value to IFRS Value				
	Intrinsic net asset value 30 June 2020	Spot vs 30day VWAP	B-BBEE Lock-in Discounts	Control Premium	IFRS net asset value 30 June 2020
<b>Total Financial Services</b>	<b>3 411</b>	<b>69</b>	<b>–</b>	<b>(89)</b>	<b>3 391</b>
Listed	1 307	69	–	(89)	1 287
Unlisted	2 104	–	–	–	2 104
<b>Total Diversified Investments</b>	<b>7 728</b>	<b>35</b>	<b>20</b>	<b>–</b>	<b>7 783</b>
Listed	846	35	20	–	901
Unlisted	6 882	–	–	–	6 882
<b>Total Fund Invested Portfolio value</b>	<b>11 139</b>	<b>104</b>	<b>20</b>	<b>(89)</b>	<b>11 174</b>
Deferred consideration	(28)	–	–	–	(28)
UBI GP fee payable	(194)	–	–	–	(194)
Diversified Investments and Financial Services portfolio debts	(1 019)	–	–	–	(1 019)
Diversified Investments and Financial Services portfolio accrued finance cost	(18)	–	–	–	(18)
<b>Total Portfolio net of liabilities</b>	<b>9 880</b>	<b>104</b>	<b>20</b>	<b>(89)</b>	<b>9 915</b>
Cash in the ARC Fund	61	–	–	–	61
Other assets in the ARC Fund	7	–	–	–	7
<b>Total investment in ARC Fund at FVPL</b>	<b>9 948</b>	<b>104</b>	<b>20</b>	<b>(89)</b>	<b>9 983</b>



Reconciliation		30 June 2019			
	INTRINSIC net asset value to IFRS Value				
	Intrinsic net asset value 30 June 2019	Spot vs 30day VWAP	B-BBEE Lock-in Discounts	Control Premium	IFRS net asset value 30 June 2019
<b>Total Financial Services</b>	<b>2 577</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>2 598</b>
Listed	674	21	-	-	695
Unlisted	1 903	-	-	-	1 903
<b>Total Diversified Investments</b>	<b>6 782</b>	<b>11</b>	<b>82</b>	<b>-</b>	<b>6 875</b>
Listed	871	11	82	-	964
Unlisted	5 911	-	-	-	5 911
<b>Total Fund Invested Portfolio value</b>	<b>9 359</b>	<b>32</b>	<b>82</b>	<b>-</b>	<b>9 473</b>
Deferred Consideration	(148)	-	-	-	(148)
UBI GP fee payable	(78)	-	-	-	(78)
Diversified Investments and Financial Services Portfolio debt	-	-	-	-	-
<b>Total Portfolio net of liabilities</b>	<b>9 133</b>	<b>32</b>	<b>82</b>	<b>-</b>	<b>9 247</b>
Cash in the ARC Fund	725	-	-	-	725
Other assets in the ARC Fund	(118)	-	-	-	(118)
<b>Total investment in ARC Fund at FVPL</b>	<b>9 740</b>	<b>32</b>	<b>82</b>	<b>-</b>	<b>9 854</b>

# SEGMENTAL INFORMATION *continued*

For the year ended 30 June 2020

## 4.2 SEGMENTAL PORTFOLIO RETURNS

Investment (R million)	30 June 2020				
	Dividend Income <sup>1</sup>	Fair Value Adjustment	Other Income <sup>2</sup>	Expected Taxation Cash Flows	Intrinsic Total
<b>Diversified Investments</b>					
Telecommunications	–	491	–	–	491
Rain	–	479	–	–	479
MetroFibre	–	12	–	–	12
Mining, Construction and Energy	9	(70)	1	–	(60)
Afrimat#	9	35	–	–	44
Kropz Group	–	–	1	–	1
Last Mile Fund	–	(81)	–	–	(81)
Other Mining, Construction and Energy	–	(24)	–	–	(24)
Business Process Outsourcing	86	(85)	–	–	1
Gemcap	57	(37)	–	–	20
Bluespec	19	(11)	–	–	8
Other Business Process Outsourcing	10	(37)	–	–	(27)
Property	7	(34)	50	–	23
Majik	4	7	50	–	61
Other property	3	(41)	–	–	(38)
Other	26	(53)	–	–	(27)
Fledge Capital	26	(43)	–	–	(17)
Other Diversified Investments	–	(10)	–	–	(10)
Agriculture	8	(54)	–	–	(46)
<b>Total Diversified Investments</b>	<b>136</b>	<b>195</b>	<b>51</b>	<b>–</b>	<b>382</b>
<b>Financial Services</b>					
Insurance and Asset Management	139	59	2	(17)	183
Alexander Forbes Group Holdings#	53	(19)	–	4	38
Alexander Forbes Limited	64	(102)	–	22	(16)
Rand Mutual Holdings	–	70	–	(16)	54
Other Insurance and Asset Management	22	110	2	(27)	107
Banking & Digital	5	(187)	–	42	(140)
TymeBank	–	(156)	–	35	(121)
Other Banking and Digital	5	(31)	–	7	(19)
Specialist Financial Services	12	22	2	(4)	32
<b>Total Financial Services</b>	<b>156</b>	<b>(106)</b>	<b>4</b>	<b>21</b>	<b>75</b>
<b>Total Fund Invested Portfolio value</b>	<b>292</b>	<b>89</b>	<b>55</b>	<b>21</b>	<b>457</b>

# Denotes a listed entity classified as level 1 fair value hierarchy

<sup>1</sup> Dividend income represents cash dividend receipts

<sup>2</sup> Other income includes director's fees, interest income on loans to and foreign exchange gains and losses on portfolio entities

	30 June 2020				
	Intrinsic Value FV movement 30 June 2020	Change resulting from Spot vs 30 day VWAP	Change resulting from BEE Discounts	Change resulting from Control Premium	IFRS FV movement 30 June 2020
Total Financial Services	75	48	–	(89)	34
Total Diversified Investments	382	(101)	62	–	343
<b>Total Fund Invested Portfolio value</b>	<b>457</b>	<b>(53)</b>	<b>62</b>	<b>(89)</b>	<b>377</b>
Fund management fee					(206)
Interest income on cash and cash equivalents					30
Other net expenses in the Fund					(72)
<b>Fair value movements on the investment in the ARC Fund at FVTPL*</b>					<b>129</b>

## 4.2 SEGMENTAL PORTFOLIO RETURNS

Investment (R million)	30 June 2019				
	Dividend Income <sup>1</sup>	Fair Value Adjustment	Other Income <sup>2</sup>	Expected Taxation Cash Flows	Intrinsic Total
<b>Diversified Investments</b>					
Telecommunications	–	375	–	–	375
Rain	–	364	–	–	364
MetroFibre	–	11	–	–	11
Mining, Construction and Energy	48	(534)	81	–	(405)
Afrimat#	21	97	–	–	118
Kropz Group	–	(483)	70	–	(413)
Last Mile Fund	27	(58)	10	–	(21)
Other Mining, Construction and Energy	–	(90)	1	–	(89)
Business Process Outsourcing	26	(191)	9	–	(156)
Gemcap	–	54	9	–	63
Bluespec	25	(239)	–	–	(214)
Other Business Process Outsourcing	1	(6)	–	–	(5)
Property	–	17	9	–	26
Majik	–	3	9	–	12
Other property	–	14	–	–	14
Other	–	64	–	–	64
Fledge Capital	–	106	–	–	106
Other Diversified Investments	–	(42)	–	–	(42)
Agriculture	24	(33)	(6)	–	(15)
<b>Total Diversified Investments</b>	<b>98</b>	<b>(302)</b>	<b>93</b>	<b>–</b>	<b>(111)</b>
<b>Financial Services</b>					
Insurance and Asset Management	79	(52)	(1)	12	38
Alexander Forbes Group Holdings#	25	(37)	–	8	(4)
Alexander Forbes Limited	31	(8)	–	2	25
Rand Mutual Holdings	–	–	–	–	–
Other Insurance and Asset Management	23	(7)	(1)	2	17
Banking & Digital	–	421	–	(94)	327
TymeBank	–	355	–	(79)	276
Other Banking and Digital	–	66	–	(15)	51
Specialist Financial Services	10	11	5	(2)	24
<b>Total Financial Services</b>	<b>89</b>	<b>380</b>	<b>4</b>	<b>(84)</b>	<b>389</b>
<b>Total Fund Invested Portfolio value</b>	<b>187</b>	<b>78</b>	<b>97</b>	<b>(84)</b>	<b>278</b>

# Denotes a listed entity classified as level 1 fair value hierarchy

<sup>1</sup> Dividend income represents cash dividend receipts

<sup>2</sup> Other income includes director's fees, interest income on loans to and foreign exchange gains and losses on portfolio entities

	30 June 2019				
	Intrinsic Value FV movement 30 June 2019	Change resulting from Spot vs 30 day VWAP	Change resulting from BEE Discounts	Change resulting from Control Premium	IFRS FV movement 30 June 2019
Total Financial Services	389	38		–	427
Total Diversified Investments	(111)	(36)	30	–	(117)
<b>Total Fund Invested Portfolio value</b>	<b>278</b>	<b>2</b>	<b>30</b>	<b>–</b>	<b>310</b>
Fund management fee					(153)
Interest income on cash and cash equivalents					96
Other net expenses in the Fund					19
<b>Fair value movements on the investment in the ARC Fund at FVTPL*</b>					<b>272</b>

# SEGMENTAL INFORMATION *continued*

For the year ended 30 June 2020

## 4.3 SEGMENTAL PORTFOLIO NET ASSET VALUE MOVEMENTS - OTHER DISCLOSURE

Investment (R million)	30 June 2020					
	INTRINSIC					
	Net Balance 30 June 2019	Acquisition or (Disposal)	Net Interest Capitalised	Fair Value, Forex & Disposal Gain/loss	Expected Taxation Cash Flows	Net Balance 30 June 2020
<b>Nature classification of investments</b>						
<b>Listed</b>	1 545	678	–	(67)	12	2 168
Diversified Investments	871	–	–	(9)	–	862
Financial Services	674	678	–	(58)	12	1 306
<b>Unlisted</b>	7 814	963	1	199	(6)	8 971
Diversified Investments	5 911	717	(1)	239	–	6 866
Financial Services	1 903	246	2	(40)	(6)	2 105
<b>Total Nature classification</b>	<b>9 359</b>	<b>1 641</b>	<b>1</b>	<b>132</b>	<b>6</b>	<b>11 139</b>
<b>Geographic classification of investments</b>						
<b>Diversified Investments</b>	6 782	717	(1)	230	–	7 728
South Africa	6 002	295	1	190	–	6 488
Rest of Africa	6	171	–	–	–	177
International	774	251	(2)	40	–	1 063
<b>Financial Services</b>	2 577	924	2	(98)	6	3 411
South Africa	2 511	924	2	(58)	(3)	3 376
Rest of Africa	–	–	–	–	–	–
International	66	–	–	(40)	9	35
<b>Total Geographic Classification</b>	<b>9 359</b>	<b>1 641</b>	<b>1</b>	<b>132</b>	<b>6</b>	<b>11 139</b>
<b>Investment Instrument Type</b>						
<b>Diversified Investments</b>	6 782	717	(1)	230	–	7 728
Equity	6 344	653	–	154	–	7 151
Loans	145	40	(1)	106	–	290
Preference Shares	293	24	–	(30)	–	287
<b>Financial Services</b>	2 577	924	2	(98)	6	3 411
Equity	2 533	921	–	(98)	6	3 362
Loans	23	3	1	–	–	27
Preference Shares	21	–	1	–	–	22
<b>Total Instrument Type Classification</b>	<b>9 359</b>	<b>1 641</b>	<b>1</b>	<b>132</b>	<b>6</b>	<b>11 139</b>

	30 June 2020			
	Net Asset Value per share			
<b>Net Asset Value – IFRS</b>	30 June 2020	30 June 2019	per share change	% change
Net Asset Value per share (cents) – IFRS	957	945	12	1.3%
Diluted Net Asset Value per share (cents) – IFRS	957	945	12	1.3%
	Net Asset Value per share			
<b>Net Asset Value – Intrinsic</b>	30 June 2020	30 June 2019	per share change	% change
Net Asset Value per share (cents) – Intrinsic	954	934	20	2.1%
Diluted Net Asset Value per share (cents) – Intrinsic	954	934	20	2.1%

#### 4.3 SEGMENTAL PORTFOLIO NET ASSET VALUE MOVEMENTS - OTHER DISCLOSURE

Investment (R million)	30 June 2019					
	INTRINSIC					
	Net Balance 30 June 2018	Acquisition or (Disposal)	Net Interest Capitalised	Fair Value, Forex & Disposal Gain/loss	Expected Taxation Cash Flows	Net Balance 30 June 2019
<b>Nature classification of investments</b>						
<b>Listed</b>	1 406	153	–	(23)	9	1 545
Diversified Investments	851	–	–	20	–	871
Financial Services	555	153	–	(43)	9	674
<b>Unlisted</b>	6 742	977	68	120	(93)	7 814
Diversified Investments	5 732	418	71	(310)	–	5 911
Financial Services	1 010	559	(3)	430	(93)	1 903
<b>Total Nature classification</b>	<b>8 148</b>	<b>1 130</b>	<b>68</b>	<b>97</b>	<b>(84)</b>	<b>9 359</b>
<b>Geographic classification of investments</b>						
<b>Diversified Investments</b>	6 583	418	71	(290)	–	6 782
South Africa	6 206	(103)	55	(156)	–	6 002
Rest of Africa	–	6	–	–	–	6
International	377	515	16	(134)	–	774
<b>Financial Services</b>	1 565	712	(3)	387	(84)	2 577
South Africa	1 565	697	(3)	321	(69)	2 511
Rest of Africa	–	–	–	–	–	–
International	–	15	–	66	(15)	66
<b>Total Geographic Classification</b>	<b>8 148</b>	<b>1 130</b>	<b>68</b>	<b>97</b>	<b>(84)</b>	<b>9 359</b>
<b>Investment Instrument Type</b>						
<b>Diversified Investments</b>	6 583	418	71	(290)	–	6 782
Equity	5 810	625	–	(91)	–	6 344
Loans	672	(387)	59	(199)	–	145
Preference Shares	101	180	12	–	–	293
<b>Financial Services</b>	1 565	712	(3)	387	(84)	2 577
Equity	1 501	729	–	387	(84)	2 533
Loans	46	(20)	(3)	–	–	23
Preference Shares	18	3	–	–	–	21
<b>Total Instrument Type Classification</b>	<b>8 148</b>	<b>1 130</b>	<b>68</b>	<b>97</b>	<b>(84)</b>	<b>9 359</b>

	30 June 2019			
	Net Asset Value per share			
Net Asset Value – IFRS	30 June 2019	30 June 2018	per share change	% change
Net Asset Value per share (cents) – IFRS	945	931	14	1.5%
Diluted Net Asset Value per share (cents) – IFRS	945	920	25	2.7%
	Net Asset Value per share			
Net Asset Value – Intrinsic	30 June 2019	30 June 2018	per share change	% change
Net Asset Value per share (cents) – Intrinsic	934	923	11	1.2%
Diluted Net Asset Value per share (cents) – Intrinsic	934	912	22	2.4%

# NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS

For the year ended 30 June 2020



## 5. INVESTMENT IN THE ARC FUND AT FVTPL

R million	Notes	30 June 2020	30 June 2019
The movement of the investment in the ARC Fund at FVTPL is as follows:			
Opening balance		9 854	9 582
Fair value movements on the investment in the ARC Fund at FVTPL	4.2	129	272
<b>Total</b>		<b>9 983</b>	9 854
<b>Valuation information:</b>			
IFRS 13 fair value hierarchy		<b>Level 3</b>	Level 3
Valuation methodology		<b>Sum of the parts</b>	Sum of the parts

\* FVTPL: Fair value through profit or loss.

## REALISATION AND DERECOGNITION

### Accounting policies and choices

The Company applies the derecognition principles in IFRS 9, Financial Instruments, and derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, it recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognise the financial asset and also recognises a secured borrowing for the proceeds received.

### Company context in application of accounting policy choices

The strategic objective of the Company is to not declare any dividends in the short- to medium-term.

The Company's partnership profit share in the ARC Fund for the reporting period is not as a result of a return of capital but rather the fair value movements of the Portfolio Companies in the ARC Fund and is therefore unrealised. The Company has therefore adopted a policy whereby unrealised profits of this nature are transferred to the fair value reserve. In the event of a return of capital by the ARC Fund, these would be realised and accordingly transferred from the fair value reserve to retained earnings.



## 6. CAPITAL AND RETURN ON CAPITAL

### 6.1 Stated capital

R million	Notes	30 June 2020	30 June 2019
<b>Issued share capital</b>			
<b>Ordinary shares</b>			
- 100 Ordinary shares of no par value issued at incorporation at USD1 per share (translated at R12.91) <sup>1</sup> .		–	–
- 526 588 235 shares issued to ARC Proprietary Limited under an asset-for-share sale transaction.		4 563	4 563
- 505 882 353 shares issued at listing date at R8.50 per share.		4 300	4 300
- Share issue costs.		(31)	(31)
- Conversion of 12 577 126 C shares for FY 2018 Performance Participation		71	71
<b>Total issued share capital at the end of the year</b>		<b>8 903</b>	<b>8 903</b>
<b>B share</b>			
1 share issued to ARC Proprietary Limited at a nominal value of R1.		–	–
<b>C shares</b>			
5 billion shares were issued to UBI Proprietary Limited at listing at a nominal value of R1 for the Performance Participation. On 11 December 2018, 12 577 126 were converted into A ordinary shares, thus 4 987 422 874 C shares were outstanding at 30 June 2020.		–	–

<sup>1</sup> The amount is less than R1 million and is rounded to Rnil.

### 6.2 Earnings per share

R million	Notes	30 June 2020	30 June 2019
Basic earnings per ordinary share (cents)		12	26
Diluted earnings per ordinary share (cents)		12	26
Headline earnings per ordinary share (cents)		12	26
Diluted headline earnings per ordinary share (cents)		12	26
<b>7.2.1 Reconciliation of reported earnings to headline earnings:</b>			
Earnings/Headline earnings of the Company		123	267
There were no items that require adjustment from the reported earnings in terms of SAICA Circular 1/2019, Headline Earnings.			
<b>7.2.2 Number of ordinary shares (million):</b>			
Number of ordinary shares (million):			
Number of shares in issue at the end of the year		1 045	1 045
Weighted average number of shares in issue during the year (million)		1 045	1 040
Diluted weighted average number of shares in issue during the year (million)		1 045	1 040
Diluted number of shares at the end of the year (million)		1 045	1 045
Shares issued at listing 1 032 470 588			
Additional shares issued on 11 December 2018: 12 577 126			

# NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS *continued*

For the year ended 30 June 2020

## 7. TAXATION

### Accounting Policies and Choices

Normal income taxation and deferred taxation are recognised using the taxation rates and taxation laws that have been enacted or substantively enacted by the end of the reporting period in accordance with the recognition and measurement principles in *IAS 12, Taxes*.

### Company Context in Application of Accounting Policy Choices

The Company holds a Category one Global Business License, for the purpose of the Mauritian Financial Services Act 2007. It was registered in Mauritius as a private Company limited by shares on 30 June 2017 and converted to a public Company on 2 August 2017. The company has received its Global Business Licence ("GBL1") before 16 October 2017 and is grandfathered up to 30 June 2021. As from 1 July 2021 the Company's GBL1 Licence will automatically convert to a Global Business Licence.

During the grandfathered period, it is liable for income taxation at a rate of 15%. However, the Company is entitled to a taxation credit equivalent to the higher of the actual foreign taxation incurred or 80% of the Mauritian taxation on its foreign source income. The maximum effective tax rate will be 3%.

On 1 July 2021, under the new regime, the Company will be able to claim on 80% exemption on specified income (including foreign dividends and interest), subject to meeting pre-defined substance conditions. Other types of income not falling within the categories of income benefitting from the exemption will be taxed at 15%.

The foregoing is based on current interpretation and practice and is subject to any future changes in Mauritian taxation laws.

R million	30 June 2020	Restated 30 June 2019
Losses carried forward amounting to R57 million at 30 June 2020. Mauritian taxation Regulations permit the carryforward of unused taxation losses for a maximum period of 5 years from the date they arose. The accumulated taxation losses are available for set-off against future taxable income as follows:		
Arising in financial year 2020, carry forward up to 2025 financial year	57	–

## 7. TAXATION *continued*

R million	30 June 2020	Restated 30 June 2019
In the current reporting period, the taxation has been reflected at a statutory rate of 15% (previously reported 3%) as a result of the correction in the taxation computation approach. The comparatives have been restated as a result of this error. The restatement does not have an impact on the statement of financial position and statement of comprehensive income. No impact on the effective tax rate being 0% (previously reported 0%).		
<b>Profit before taxation</b>	<b>123</b>	267
Taxation at a statutory effective rate of 15% before foreign taxation credit	<b>18</b>	40
<b>Tax reconciled</b>	<b>(18)</b>	(40)
Income not subject to tax	<b>(27)</b>	(26)
Expenses not deductible for tax purpose	–	1
Underlying tax gross up	–	8
Tax losses for which no deferred tax asset was recognised	<b>9</b>	–
Tax credit	–	(23)
A deferred tax asset amounting to R1,7 million has not been recognised as the Directors have determined that it is not probable that the Company will generate sufficient taxable profits in the foreseeable future against which the deferred taxation asset can be utilised		

## 8. RECONCILIATION OF CASH UTILISED IN OPERATIONS BEFORE INVESTMENTS MADE

R million	Notes	30 June 2020	30 June 2019
<b>Profit/(loss) before taxation</b>		<b>123</b>	267
<b>Adjustment for non-cash items</b>		<b>(129)</b>	(273)
Fair value movements on the investment in the ARC Fund at FVTPL*	4.2	<b>(129)</b>	(272)
Performance Participation expense		–	–
Foreign exchange gains/(losses)		–	(1)
<b>Working capital movements</b>		<b>1</b>	1
(Increase)/decrease in trade and other receivables		–	1
Increase/(decrease) in trade and other payables		<b>1</b>	–
<b>Cash utilised in operations before investment activities</b>		<b>(5)</b>	(5)

\* FVTPL: Fair value through profit or loss.

# NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS *continued*

For the year ended 30 June 2020

## 9. COMMITMENTS

**As at 30 June 2020, the Company did not have any commitments.**

### ARC Fund commitments:

#### ARC Real Estate and Gemcap:

The ARC Fund has committed R500m to ARC Real Estate to fund the acquisition of properties. No funds have been drawn at the reporting date. It has also committed R500 million to Gemcap of which R398.6m has been contributed, with a balance of R101.4 million remaining at 30 June 2020.

Any contributions are subject to approval by the UBI General Partner.

#### ARCH Emerging Markets Partners:

The ARC Fund has committed US\$50 million in emerging markets focused themes including renewable energy power and cold chain storage solutions. At 30 June 2020 the fund has contributed \$10.1 million with a balance remaining of US\$39.9 million.

#### Elandsfontein:

The ARC Fund has committed US\$40.0 million (not exceeding a maximum of ZAR 680 million) to Kropz Plc in order to fund the reconfiguration of the processing plant at Kropz Elandsfontein phosphate mine until commissioning. At 30 June 2020, US\$10 million (the ZAR Equivalent of ZAR 170 million) has been contributed to the Elandsfontein project, with a remaining commitment of US\$30 million limited to R510 million.

At 30 June 2019, the ARC Fund had a commitments pipeline approved by the Investment Committee, being a combination of new investments and commitment to existing investments, amounting to R1 981 million.

## 10. SUBSEQUENT EVENTS

### Capital Contribution – TymeBank

ARC Financial Services has contributed additional capital amounting to R182.5 million from its own resources and the ARC Fund therefore did not need to make a capital contribution.

### Fledge Capital share buy back

The ARC Fund sold 622 shares (amounting to 30% of the Fledge issued share capital) to Fledge for an amount of R270 million. After the transaction the ARC Fund's interest in Fledge is 30%.

### Dividend Income from Alexander Forbes Group Limited

ARC Financial Services received a dividend of R304 million from Alexander Forbes Group Holdings Limited.

### Sanlam 3rd Party Asset Management

Sanlam signed agreements with ARC Financial Services in respect of a transaction to establish one of the largest black-empowered asset management companies in South Africa. Once this transaction becomes effective, ARC Financial Services will own an approximate 25% economic interest in Sanlam's South African third-party asset management business other than the investment management business conducted by Sanlam Private Wealth (Pty) Ltd and the Sanlam Specialised Finance division. The transaction is subject to regulatory approvals.

### Rights Offer to shareholders

The Board approved a fully committed and underwritten pro rata non-renounceable Rights Offer to Shareholders on 9 September 2020 to raise R750 million through an offer of 272 727 273 Rights Offer Shares at a Rights Offer Price of R2.75, in the ratio of 26.09711 Rights Offer Shares for every 100 Ordinary Shares held at the close of business on Friday, 25 September 2020. The Rights Offer is fully underwritten by ARC.

## 11. GOING CONCERN AND IMPACT OF COVID-19

ARC Fund raised a R1 billion two-year revolving Credit Facility from RMB during February 2020, which is repayable during September 2022. An amount of R440 million was drawn from the facility at year end.

The financial statements were prepared on the going concern basis. The assets of the company, fairly valued, exceed its liabilities. The directors are of the opinion that the company will continue as a going concern based on forecasts and available resources including cash, unutilised borrowing facilities and the proceeds from the R750 million rights issue (refer to Events after Reporting Period (note 15).

## 11. GOING CONCERN AND IMPACT OF COVID-19 *continued*

### Impact of COVID-19

The South African Government imposed a National Lockdown for 21 days to contain the spread of COVID-19 in South Africa on 26 March 2020. All non-essential businesses were ordered to close for the duration of the National Lockdown. As part of the National Lockdown, Government announced a risk-adjusted approach to phase in the re-opening of the economy. Investee companies in the ARC Fund portfolio have all taken appropriate measures to combat the spread of the virus among their employees.

ARC management, as contracted by the UBI General Partner of the ARC Fund will, alongside investee companies' management, continue to proactively measure and manage any potential impacts of the National Lockdown. The collective response to COVID-19 will be within the framework of the Company's policies, local and national health authority requirements and recommendations.

Considering the ARC Fund's diverse portfolio, the National Lockdown resulted in both a positive and negative impact within the portfolio. Some companies experienced an acceleration in business activity, while others unfortunately experienced a marked slowdown during the lockdown period. The adverse impact of COVID-19 on the portfolio is, at this stage, considered to be temporary. We have already seen some businesses experiencing an increased level of business activity to near pre-lockdown levels. As a further pro-active measure, investee companies' management implemented cost containment strategies to weather poor trading conditions. Some investee companies obtained short-term financial support from the ARC Fund to assist with operating capital during this time.

The General Partner continued to operate during the lockdown without any significant issues. Employees of our major investee companies such as Rain, TymeBank and Alexander Forbes continued to mostly work remotely as part of the essential services during the Lockdown period. Key investee companies that were closed during the Lockdown period were Bluespec and Autoboy. As Lockdown regulations ease, all entities work towards getting back to their pre-COVID-19 trading state.

The financial statements were prepared on the going concern basis. The assets of the company, fairly valued, exceed its liabilities. The directors are of the opinion that the company will continue as a going concern in the future based on forecasts and available cash resources as well as the cash expected to be raised from the rights issue.

### Impact of COVID-19 on the valuations

Management has considered the impact of the COVID-19 on the valuations on case by case basis. Considering the diverse nature of the ARC Fund portfolio the impact was both negative and positive.

#### Rain

As a result of national lock down requiring more people to work remotely, the demand for affordable internet connectivity increased significantly. Rain experienced a surge in subscriber numbers during the COVID-19 period and managed to grow its subscribers base far excess of forecast growth. Although this growth is encouraging, Rain's ability to control customer churn will be critical.

#### TymeBank

While TymeBank was operational during the lockdown period facilitated by its kiosks being situated in the retail environment, it did experience some challenges in terms of lower customer acquisition numbers and reduced transactional volumes. This together with the uncertain economic environment particularly the pressure on the consumer, as a result of COVID-19, did require a revisit of the TymeBank strategy and changes to its revenue and cost model, with the result being a broader and diversified product offering to break even complemented with a streamlined, more efficient cost base. A write down of R121 million was recognised.

#### Rand Mutual Holdings

RMH is predominantly exposed to the Metals and Mining sectors. It was able to continue operating during the lockdown period however its ability to write new business was significantly impacted by the fact that most employer groups were either closed, or suffering immense financial pressure resulting in less new premiums written. In addition, it also saw a decline in collections over the lockdown period, however such collections have since started to ramp up again. It did receive a handful of COVID-19 related claims however these were very small and did not impact the trading.

#### Gemcap and Fledge Capital

Gemcap and Fledge Capital both hold diversified investment portfolios. The impact of COVID-19 on the investment portfolio companies varied significantly largely depending on industry and each company's position in their business cycle. Some operations such as Payprop SA (within GemCap) experienced minimal disruption as a result of COVID-19, while other companies like such as We Buy Cars (within Fledge) were severely impacted by the national lockdown period. The valuation models applied were normalised to take into the account the estimated long-to medium-term impact of COVID-19 on each portfolio company.

# NOTES TO THE SUMMARISED ANNUAL FINANCIAL STATEMENTS *continued*

For the year ended 30 June 2020



## **Kropz**

The Kropz Elandsfontein project is advancing according to schedule, despite an on-going national lockdown as a result of COVID-19. The estimated production start date is still scheduled for Q4 2021. The General Partner and Kropz management have considered the impact of COVID-19 on the Kropz Group and do not believe that it has had a material impact. Kropz continues to monitor the situation closely.

The authorities in the Republic of the Congo where the Cominco project is situated, has also introduced a number of measures to limit the spread of the virus including the closure of all air, land and maritime borders as of 21 March 2020, and have enforced a strict lockdown in the country. Considering the stage of development at Comico, this is expected to have a minimal impact on Kropz.

## **Majik**

The impact of COVID-19 on Majik was minimal. COVID-19 as resulted in increased volatility of exchange rate market. As the investment in Majik is GBP based ARC Fund is exposed to the exchange rate risks. The impact has been recognised in the current year valuation.

## **Bluespec**

Bluespec's volumes were significantly impacted during the Level 5 lockdown period which prompted the entity to introduce significant cost saving measures. Over the lockdown period the substantially lower cost base allowed the company to sustain profit levels. The company has also introduced innovative strategies and new routes to market in an attempt to drive volume recovery. Due to the challenging operating environment coupled with the impact of COVID-19, the ARC Fund's investment in Bluespec was written down by R11 million at 30 June 2020.

## **Last Mile Fund**

Last Mile Fund has four investments that mainly operate in the mining sector which was significantly impacted by the national lockdown and accompanying regulations. The mining operation Mooiplats, which represents the most significant investment in the Last Mile Fund, was impacted by both the depressed market coal price as well as the lower demand for export coal. As a result, the mine has been placed under care and maintenance until such time as the market coal price recovers. The cumulative impact of the above factors led to the investment being written down by R81 million.

## **Capital Legacy**

Capital Legacy also experienced a surge in the number of people signing up for will drafting. Capital Legacy has managed to maintain this growth trend post the lockdown. The business has utilised various platforms to reach out to consumers on the advocacy around the importance of having a valid will.

# I OTHER INFORMATION



## **Governance & Leadership**

The 3rd Annual General Meeting (AGM) of the shareholders of African Rainbow Capital Investments Limited (“the Company”) will be held (subject to any adjournment, postponement or cancellation) at the Intercontinental Trust Limited, New York boardroom, Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius, at 15H00 (UTC/GMT+4 hours) on Monday, 16 November 2020.

Given the unprecedented current environment caused by the COVID-19 outbreak, whilst the AGM will have a physical presence at the Company’ office, in line with guidance against non-essential travel and restrictions on public gatherings, the meeting will be a closed meeting.

A report on the Group’s corporate governance is recorded in the Integrated Annual Report 2020.

## **Availability of Integrated Annual Report**

Shareholders are advised that the Integrated Annual Report 2020 will be available on the Company’s website at <https://arci.mu/investor-relations/#integrated-reports> from 6th October 2020 and is due to be posted to shareholders on 6 October 2020.

## II CORPORATE INFORMATION



<b>Contact Information</b>	African Rainbow Capital Investments Limited (A Company registered and domiciled in the Republic of Mauritius) www.arci.mu
<b>Registration number</b>	C148430
<b>JSE share code</b>	AIL
<b>ISIN code</b>	MU0553S00000
<b>Directors</b>	Mark Cyril Olivier (Chairman) Deans Tommy Lo Seen Chong* Clive Msipha Bridget Ntombenhle Radebe ** Renosi Mokate Anil Currimjee Mmamodiane Refiloe Nkadameng *** Smitha Algoo-Bissonauth****
<b>Executive Management</b>	Karen Bodenstein (Chief Financial Officer)
<b>Registered Address</b>	Level 3, Alexander House, 35 Cybercity Ebène, 72201 (Level 3, Alexander House, 35 Cybercity, Ebène, 72201) Mauritius Registered and incorporated as a private Company in Mauritius on 30 June 2017 and converted to a public Company on 2 August 2017.
<b>Company Secretary</b>	Intercontinental Trust Limited Level 3, Alexander House, 35 Cybercity, Ebène, 72201 (Level 3, Alexander House, 35 Cybercity, Ebène, 72201) Mauritius (Company number: C23546)
<b>Sponsor</b>	Rand Merchant Bank, a division of FirstRand Bank Limited 1 Merchant Place Cnr Fredman Drive and Rivonia Road Sandton, Johannesburg, 2196 (PO Box 786273, Sandton, 2146) South Africa Registration number 1929/001225/06)
<b>Transfer Secretaries</b>	Computershare Investor Services Proprietary Limited Registration number 2004/003647/07) Rosebank Towers, 15 Biermann Avenue Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) South Africa
<b>Independent Auditors</b>	PricewaterhouseCoopers PwC Centre, Avenue de Telfair, 80829, Moka, Republic of Mauritius  PricewaterhouseCoopers Inc. 5 Silo Square, V&A Waterfront, Cape Town, 8002, South Africa
<b>Investor Relations</b>	Ainsley Moos investors@arci.mu +230 (403) 0800 +21 (21) 180 0107 +27 (83) 296 4697

\* Mr. Deans Tommy Lo Seen resigned as an Independent Non-executive Director with effect from 13 September 2020.

\*\* Ms Bridget Ntombenhle Radebe resigned as a Non-executive Director with effect from 28 November 2019. Refer to the detailed SENS announcement issued on 29 November 2019.

\*\*\* Ms Mmamodiane Refiloe Nkadameng has been appointed as a Non-executive Director with effect from 9 March 2020. Refer to the detailed SENS announcement issued on 10 March 2020.

\*\*\*\* Ms. Smitha Algoo-Bissonauth has been appointed as an Independent Non-executive Director with effect from 14 September 2020.





[www.arci.mu](http://www.arci.mu)