



# Interpreting Annual Financial Statements: A tax perspective

PRESENTED BY

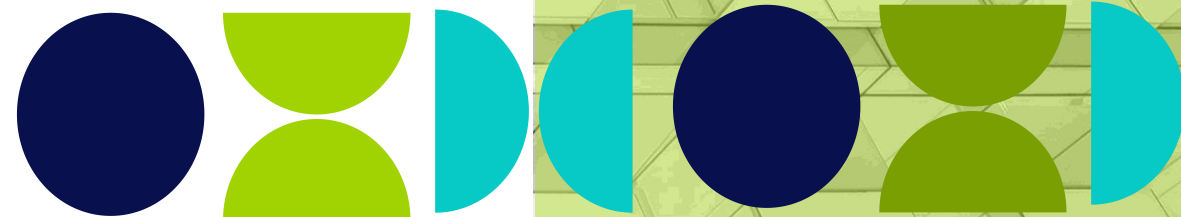
Kreston South Africa

Johan Heydenrych: Director Tax Services

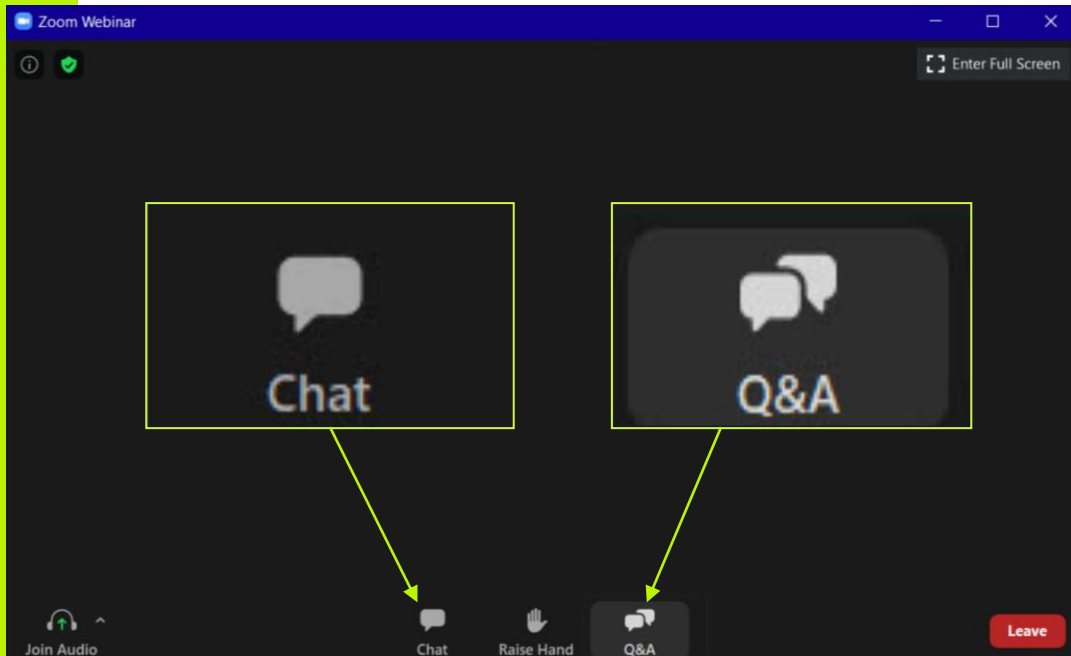
Marina Pretorius: Associate Director: Tax Services

25 May 2022

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# EVENT PROCEDURE



**CHAT** Join the discussion. Select "everyone" from dropdown before you post



**Q&A** Questions will only be visible to presenter who will address questions after each topic



**Recording** Available on SAIBA Academy

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**Legalise**


SARS is closing the GAP

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Declaration

**NQF7+**

Assessment on Statements of Tax Standards  
(25 Questions)

**<NQF7**

Assessment on Statements of Tax Standards  
(25 Questions)  
Assessment on VAT, Corporate, Individual and Payroll Taxes  
(75 Questions)



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- 2 Q&A

**tax happy hour**



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1.

Interpreting AFS

**tax happy hour**

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# ABOUT THE PRESENTER

## Johan Heydenrych Kreston South Africa



Johan is a Chartered Accountant who specialised in taxation since 1991. He holds the following qualifications:

- B. Com (Accounting) (Cum Laude)
- B. Com (Accounting) (Hons) (Cum Laude) (Award: "Best student in Audit 700")
- Certificate in the Theory of Accounting
- M. Com (Taxation) (Cum Laude) (Award: "Best M. Com (Tax) student")
- Chartered Accountant (Specialising in Taxation)
- Member of SAICA
- Registered Tax Practitioner

Johan was a tax partner at KPMG from 1997 to 2020 and is currently a partner in the Kreston SA network specialising in taxation.

He provides a wide range of tax services to various clients across industries. These include but are not limited to the following:

- Advice on Tax Risk Management and Tax Governance.
- Tax compliance services including but not limited to ITR 14 and IT 14SD
- Dealing with tax disputes including representing clients at Alternative Dispute Resolution (ADR) hearings.
- Submission of documentation and revised returns under the Voluntary Disclosure Programme.
- Issuing of tax technical opinions on Income Tax, VAT and PAYE. This include preparing briefs to Senior Counsel and submissions of requests for Binding Opinions from SARS.
- Audit support services that includes Normal Tax and Deferred Tax disclosure and disclosure of uncertain tax positions.
- Assistance with implementation of tax reporting for new accounting standards such as IFRIC 23, IFRS 9, IFRS 15 and IFRS 16.
- Facilitation of tax diagnostic sessions with existing and prospective clients.
- Advice on mergers, acquisitions and reorganizations.
- Tax due diligences
- Advice on tax implications of recapitalization transactions, debt restructures, liquidations and deregistration's



# ABOUT THE PRESENTERS

## Marina Pretorius

### Kreston South Africa



Marina joined the Kreston Pretoria team on 1 March 2021 after specialising in tax at KPMG for the last 13 years. She is an experienced tax advisor who holds an H. Dip(Tax) Degree. She completed her articles at Deloitte where she also passed the CA(SA) qualifying examination.

She worked in the UK on large listed clients for 2 years and joined KPMG tax department in 2007.

As Associate Director and head of KPMG's Global Compliance Managed Services business unit, she is very experienced in tax and accounting reporting requirements for large multi-nationals.

This includes ITR 14 disclosures required for multi-nationals as well as submissions of CbC Reports, Master Files and Local Files.

### Education and Qualifications

B. Com (Accounting)

B. Com (Accounting) (Hons)

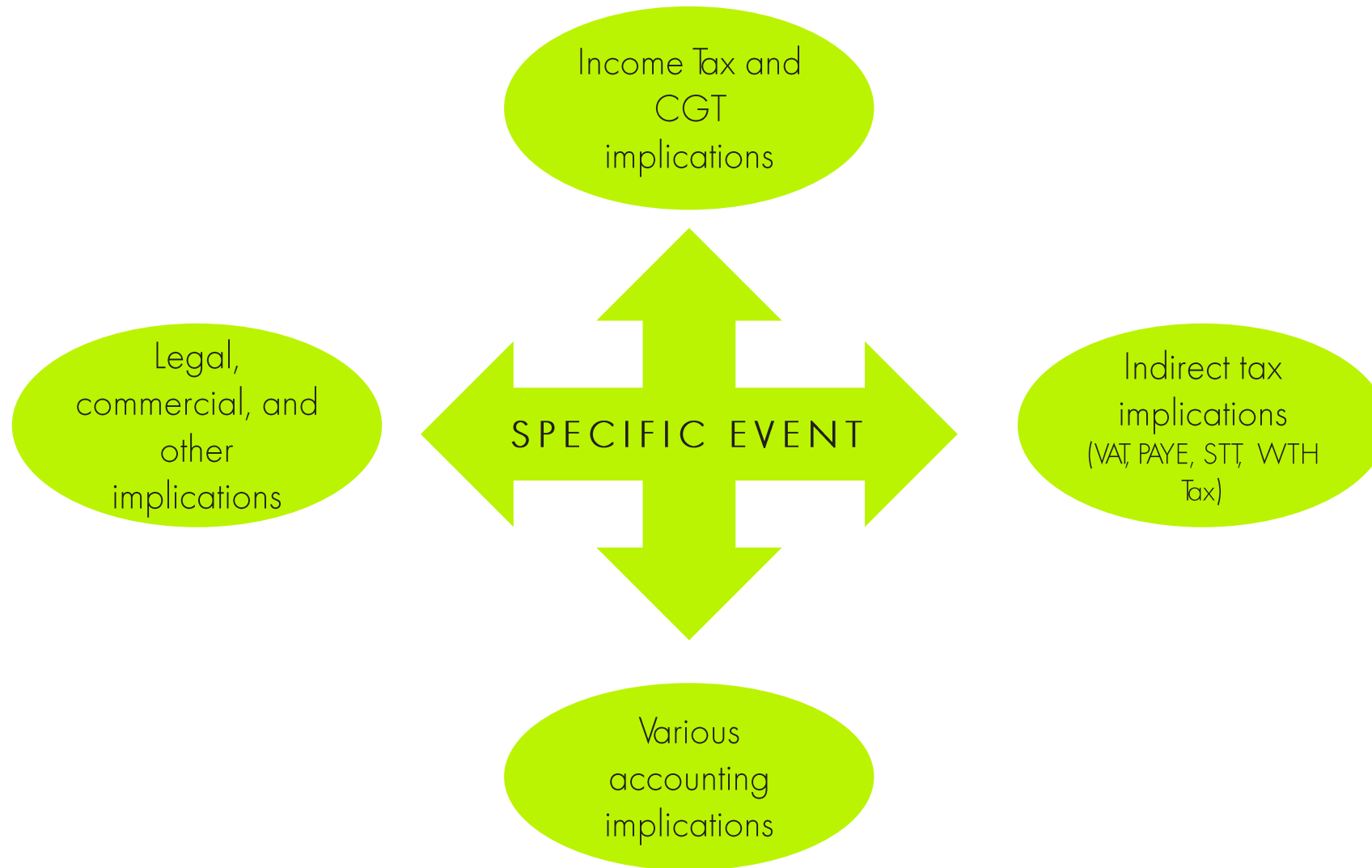
Certificate in the Theory of Accounting

Passed qualifying CA(SA) exam.

H.Dip (Tax)

Registered Tax Practitioner







# Interpreting AFS

- Before commencing with any tax assignment, it is important to critically review the AFS with the view to identify potential risk areas and adjustments.
- AFS is a “language” – Understanding the “language” will assist in ID tax challenges/opportunities
- In addition to Integrated Report:
  - Speak to target
  - Review Website
  - Search for SENS announcements
  - Download Brochures



# Interpreting AFS

## Step 1:

### Understand the industry:

- Each industry has its own tax challenges
- Most industries have tax specific legislation
- Most industries have tax rulings, interpretation notes, tax opinions relevant to the industry

### Examples

- Retail
- Banking
- Short term and long-term insurance
- Mining
- Manufacturing
- Automotive industry
- Telecommunication



# Interpreting AFS

## Step 2:

Understand that AFS contains both financial and non-financial information:

- Report of the directors
- Report of the chairman
- Integrated report contains extensive non-financial information





# Interpreting AFS

## Step 3:

Identify any major events that may give rise to tax challenges: (Examples)

- Proposed merger/acquisition/Unbundling/reorganisations
- Introduction of new shareholders
- Fraud
- Competition Commission investigations
- Significant investment in capital
- Raising of finance
- New acquisitions or disposals
- Disputes with 3rd parties (Commercial, Competition Commission, Customers, Shareholders, SARS, Foreign Entities)
- Change in accounting policies
- Restatement of prior years – fundamental errors



# Interpreting AFS: Statement of Financial Position

The Balance Sheet and notes thereto provide insight into:

---

Potential apportionment issues (Loans incurred to acquire share investments)

---

Potential unproductive interest (Interest bearing loans incurred to fund interest free loans)

---

Potential Transfer pricing – Thin capitalization and interest free loans

---

Potential IFRS adjustments – e.g., IFRS 16, derivatives, fair valuations, Rehabilitation Provisions debited to Balance Sheet

---

Potential 24I(10A) adjustments on exchange items with connected parties reflected as non-current assets/liabilities

---

Potential PAYE and dividend tax issues (e.g., interest free loans made to shareholders and companies owned by shareholders)

---

Potential adjustments for leasehold improvements

---

Terms and conditions of loans and shares may lead to adjustments in terms of S8EA, S8E, S8F, S8FA.



# Interpreting AFS: Statement of Comprehensive Income

The Income Statement and notes thereto provide insight into:

---

Non-deductible and non-taxable items e.g. dividends, penalties etc.

---

Adjustments reflected via OCI and Equity that may have a tax impact.

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Potential apportionment issues – e.g. holding company that received interest, management fees and dividends from group companies.

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Can provide insight as to whether or not the company is trading and assessed losses from prior years can be carried forward.

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Interest paid to entities not subject to tax in RSA may give rise to Section 23M limitations

# Notes and narrative provides insight

## Normal tax and Deferred Tax notes

- Analysing the normal tax, tax rate recon and Deferred tax notes can provide insights into potential adjustments that are required.
- Prior year over/understatements should be compared to actual assessments.

## Non-Income Tax

- The AFS may indicate non-income tax risks e.g. VAT, STT, Dividend Tax, PAYE, Royalty WTH Tax and non-RSA taxes. E.g. Supplies to connected parties may give rise to VAT risks
- Royalty payments to non-residents may give rise to WTH Tax and Transfer pricing risks

2.

Case Study: Comair Limited

**tax happy hour**

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# Comair Limited

Comair Limited  
Airlines



kulula.com

Comair Limited  
Hospitality

Food • Direction

S L O W

THE COURSE

Taste changes everything.

Comair Limited  
Tourism



kulula  
holidays

mtbeds  
escape, experience, enjoy

WildX

Comair Limited  
Training



Comair Limited  
Technology

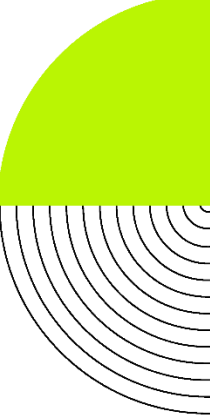
NACELLE

# Disclaimer

Please note that the presenters have never been involved with Comair in any other capacity than as customers.

The Contents of this case study is based exclusively on publicly available information and the true situation may be different or may have been affected by subsequent events.

Comair Limited





# Available information

- Last Annual report published is 2019
- Business Rescue report was published on 20 September 2020
- Business Rescue Practitioner updated every 3 months
- Numerous news articles



Comair Limited

The logo for Comair Limited features the company name in a white, sans-serif font on a dark blue rectangular background. Below the text is a white graphic element consisting of a central circular emblem with a stylized, multi-bladed propeller or fan design, flanked by two horizontal lines that taper to points at the ends.



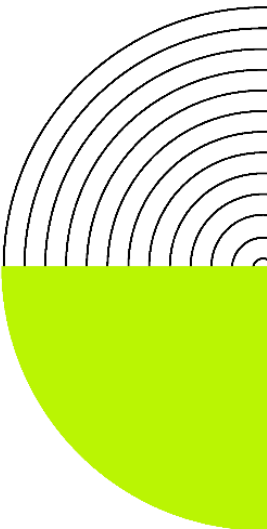
2.

## Case Study: Comair Limited

**Activities**

**tax happy hour**

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# Comair Limited: Activities

## Comair Limited



## Who We Are and What We Do

Comair Limited ("The Group") is a South African company, listed on the Johannesburg Stock Exchange (the "JSE"). The Group has operated successfully in this country since 1946 and is the only known airline to have achieved operating profits for 73 consecutive years. It has a safety record that is internationally recognised and has level 2 Broad-Based Black Economic Empowerment ("B-BBEE") recognition. The Group has been certified independently by the Top Employers Institute as one of the Top Employers South Africa 2019. This proudly South African Group is comprised of five business units:

### 1. Airlines

The Group offers scheduled and non-scheduled airline services within South Africa, sub-Saharan Africa and the Indian Ocean Islands, as its main business. The Group operates under its low-fare airline brand, kulula.com, as well as under the British Airways livery, as part of a licence agreement with British Airways PLC.

kulula.com is the market leader in affordable, easily accessible air travel and continues to grow in the cost-conscious business and leisure markets. It has become one of South Africa's iconic consumer brands, while British Airways continues to grow in the corporate and public sectors, as well as in the inbound tourist markets. The Group's route network, covered during the period under review, is set out on page 24 of this Report.

#### Inherent tax risks of airline industry?

- Income received in advance vs Consumer Protection Act vs S24C
- Tax treatment of major parts
- Scheduled repairs and maintenance.
- VAT on recoveries of ACSA fees and airport taxes.
- Own (S12C) vs lease of planes
- Improvements to planes
- Non-core taxes – Carbon Tax, Airport Tax etc
- Employment taxes – subsistence allowances, VAT on personal subsistence.

# Complexities: VAT on air travel

E-Ticket / Computer Generated Tax Invoice

TICKET NUMBER	1612118910161
PASSENGER NAME	HEYDENRYCH/JOHAN

fare	ZAR 750.00
taxes/fees/carrier-imposed charges	ZAR 112.50 ZV2 (ZV2) ZAR 86.75 ZA (Passenger Charge) ZAR 24.86 EV (Passenger Safety Charge) ZAR 22.00 UM (Passenger Services And Security Charge)
ticket calculation line	DUR MN JNB750.00ZAR750.00END
endorsement / restrictions	NONENDO/VALID BA/MN ONLY/TKT VALIDITY IS 6 MONTHS
form of payment	Credit Card - Visa : XXXXXXXXXXXX 8478
total fare	<b>ZAR 996.11</b>

## info on taxes:

ZV - VAT on fare at 15%

ZA - Passenger service charge inclusive of VAT at 15%

EV - Civil aviation aircraft passenger safety charge. VAT not applicable

UM - Passenger service charge inclusive of VAT at 15%

\*\* If a VAT vendor, you may claim the ZV tax.

Fee	Code	Ex VAT	VAT	Total	Description
Fare	ZV	750.00	112.50	862.50	VAT on fare at 15%
Passenger charge	ZA	75.43	11.32	86.75	Passenger Service charge inclusive of VAT at 15%
Passenger Safety Charge	EV	24.86	0.00	24.86	Civil aviation aircraft passenger safety charge. VAT not applicable.
Passenger Services and Security Charge	UM	19.13	2.87	22.00	Passenger Service charge inclusive of VAT at 15%
Total		869.43	126.68	996.11	

IF A VAT VENDOR, YOU MAY CLAIM THE ZV TAX.

## 2. Hospitality

The Group launched its own catering service in 2012 through a company known as Comair Catering Proprietary Limited, trading under the Food Directions Brand. Originally launched to cater to the airline brands, Food Directions now also provides a range of health and other food products to various South African retailers. Food Directions provides on-board catering and retail services to the Group's kulula.com and British Airways branded flights, giving it control and flexibility in terms of cost and product offering. It also provides all catering and procurement to the Group's SLOW Lounge network. The combined procurement volumes have allowed for improved buying and numerous cost saving benefits.

In 2015, the Group acquired a 56% shareholding in a company known as The Highly Nutritious Food Company Proprietary Limited, trading as Eatrite. This company focuses on producing healthy food products. Eatrite currently distributes a variety of these products to various retailers in South Africa and is experiencing an increase in demand for its products.

The business is additionally expanding its bakery to cater for the large volumes of patisserie being consumed in the various lounges and on board the airline brands. Food Directions currently leases the premises from which it operates from the Group's property owning company, Alooca Properties Proprietary Limited ("Alooca"), which premises are situated in an office park known as Anchor Industrial Park. Alooca acquired Anchor Industrial Park, which allows for further expansion opportunities for the Food Directions business.



**Food•Directions**

S L O W

**THE COURSE**

*Taste changes everything.*

Inherent tax risks of hospitality industry?

- Consumer Protection Act
- Process of manufacture vs S11(e) (Refer Safranmark Case (KFC))
- VAT on consumption of food by employees
- Zero rating of foodstuffs
- Leasehold improvements vs repairs to retain brand image
- Employment Tax Incentives

### 3. Tourism

Investment in technology to improve operational efficiency and innovative products to travel agencies and consumers has seen the Group become the country's largest digital travel distribution network.

The brands under the Group's tourism banner include African Images, Holiday Travel, Kulula Holidays, WildX and mtbeds.

The Group continues to form partnerships with industry leaders in travel reward and recognition programmes, as part of its objective to continuously expand and grow this business.

#### Inherent tax risks of Tourism industry?

- Income received in advance vs CPA vs S24C
- Application of correct rate of VAT
- Acting as agent vs acting as principal.
- Investment in technology – Section 11(e)

Comair Limited  
  
Tourism



## 4. Training

The Group consolidated its existing training portfolios and expertise into a single administrative entity, the Altitude Training Academy Proprietary Limited ("the Alt.Academy"), which comprised of four distinct faculties during the period under review, namely

- (a) Cabin Crew and Ground Handling;
- (b) Travel, Tourism and Hospitality;
- (c) Pilot Training; and
- (d) Leadership Development (post the financial year end the Group stopped providing this service).

The various training programmes within the Alt.Academy are delivered through specialised Comair entities including the Comair Training Centre ("CTC"), EPT Aviation Training Proprietary Limited, Global Training College South Africa Proprietary Limited, and the Learning and Development ("L&D") function.

The establishment of the Alt.Academy is part of the Group's drive to become a significant contributor towards South Africa's human capital development efforts, which are necessary for the narrowing of the current and projected skills shortages in critical industry sectors such as aviation, including the strengthening of the Group's own talent pipeline.



### Inherent tax risks of training industry?

- Learnership allowances S12H
- Employment Tax Incentives
- Cross charges to group companies
- PAYE and VAT implications of accommodation and travel costs of employees whilst on training

## 5. Technology

In 2018, Comair entered into a joint venture with an IT company known as Infinea SA Holdings Proprietary Limited, establishing a jointly held company called Nacelle Proprietary Limited. Nacelle is a service provider in aviation and related sectors, providing services such as IT operations and support, IT project deployment, process design and software development.



## 6. Headquarters

The Group's headquarters are based at 1 Marignane Drive, Bonaero Park, Kempton Park.

Whilst it operates flights destined for locations outside of South Africa, the Group's operations are based in South Africa.

Inherent tax risks associated with HQ's?

- Apportionment of input VAT
- Apportionment of expenses (S11(a) read with 23(f))
- Unproductive expenses
- Legal fees, consulting fees, overseas travel

Inherent tax risks of Technology industry?

- Section 11D Research and Development?
- Cross charges
- S11(a) vs S11(e)



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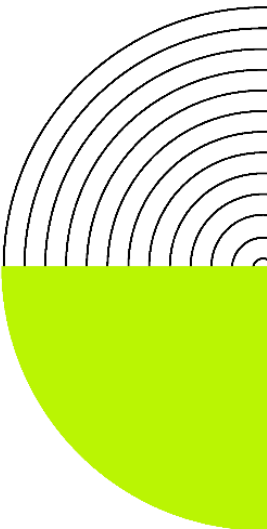
## Case Study: Comair Limited

**The Business Rescue Plan**

**tax happy hour**



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**BUSINESS RESCUE PLAN**

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Prepared in terms of section 150 of the Companies Act 71 of 2008  
in relation to

**COMAIR LIMITED  
(IN BUSINESS RESCUE)**

prepared by the business rescue practitioners:

Shaun Collyer

and

Richard Ferguson

Publication Date: 2 September 2020

Reasons for the Company's Financial Distress:

Prior to the Commencement Date, the Company had:

rising levels of debt due to significant capital expenditure to renew the Company's Fleet, which was exacerbated by the grounding of the MAX; and

a resultant and significant increase in the cost of operating the Fleet, including interest financing and lease costs,

which rapidly escalated the Company's total operating costs and resulted in a decline in the profitability of the Company, and reduced cash flows from operations and the eroding of the Company's liquidity.

Increased capital costs and operating expenses

Further, during February 2019, the Company and South African Airways SOC Limited ("SAA") reached a settlement agreement in terms of which SAA was to pay the Company R 1.1 billion in respect of damages sustained by the Company. The dispute between the Company and SAA arose when the Company lodged a complaint with the Competition Commission that SAA had paid certain override commissions to travel agents to divert customers away from the Company's flights during 2001 to 2006. In terms of the settlement agreement, SAA had made an initial payment of R 383 million on 28 February 2019, with the balance payable in monthly instalments until 28 July 2022. However, these payments were immediately terminated once SAA was placed into voluntary business rescue on 5 December 2019. Consequently, SAA breached the terms of the settlement agreement and the full outstanding balance of the settlement amount in the sum of R 790 million, as at 31 December 2019, became due, owing and payable in terms of the agreement. It is, however, highly unlikely that the Company will be able to recover the full outstanding amount from SAA.

What is tax treatment of this settlement agreement?

## Key Facets of the Business Rescue Plan:

The reduction and careful monitoring of the Company's costs by the BRPs;

Securing PCF from the Company's Lenders and Lessors, in order to provide for the storage, care, maintenance and insurance of the Fleet, as well as the necessary support services thereto;

Mothballing the Fleet, by placing the aircraft into long-term storage, for a minimum period of 6 months from the Commencement Date with the intention to resume all flying operations by approximately 1 December 2020 or as soon as the Company is sufficiently capitalised in terms of this Business Rescue Plan;

Capitalising the Company prior to the Operations Start Date, by way of Proposed Investment, described in 7.2A (paragraph 7.2.2 to 7.2.12.3 inclusive) ;

Continuing with the Retrenchment Processes to address the Company's operational requirements arising from the expected reduced flying demand and resulting optimisation of the Fleet.

"PCF" means post-commencement financing obtained in terms of section 135 (1) of the Companies Act after the Commencement Date, as authorised by the BRPs

S/be tax deductible....

Main plan is to raise capital

S/be tax deductible....

## Investors PCF:

The Investors will make an interest free PCF loan facility ("**the Investor Facility**") available to the Company, upon Adoption of the Business Rescue Plan once a loan facility agreement has been concluded and the appropriate documentation have been lodged for registration of security over certain of the Company's assets in order to secure the obligations owed by the Company to the Investors under the Investor Facility agreement, up to a maximum of R100 million as follows:

R50 million will be drawn down by the Company on 21 September 2020 (or if the security required is not registered by that date, as soon as it is registered); and

a further R50 million will be drawn down by the Company on 1 October 2020 (or if the security required is not in place by that date, as soon as it is in place).

Risk of unproductive interest in hands of investors





## Investors Equity:

Further, upon fulfilment of the Suspensive Conditions set out in 8.1.1:

the monies owed to the Investors under the Investor Facility will be converted into Securities in the Company, and the Investors will accordingly no longer be PCF Creditors of the Company in respect of any Claim under the Investor Facility and all necessary steps to deregister the security will be taken by the Investors and the Company within 14 days from date of the conversion to Securities or as soon as is practicable thereafter;

the Investors will immediately also provide equity capital to the Company in the sum of R400 million in order for the Investor to become a 99% Shareholder in the Company;

the total Investor Equity to recapitalise the Company will accordingly amount to R500 million.

Risk of section 19 of ITA and par 12A of 8<sup>th</sup> Schedule if market value of securities are less than face value of loans

As at the Publication Date, the issued share capital of the Company comprised 469,330,865 ordinary shares, all held by various shareholders including, amongst others –

BB Investment Company Proprietary Limited with 26.9% shareholding;

Allan Gray with 13.8% shareholding (Unit Trusts Grouped);

Britair Holdings Limited with 11.4% shareholding; and

Innercreek Investments Proprietary Limited with 10.6% shareholding.

Waters down the percentage shareholding of existing shareholders?

**"Investors"** means the consortium of investors, comprising certain individuals, namely, Martin Moritz, Rodney Sacks, Hilton Schlosberg, Steven Herring, Glenn Orsmond, Kirsten King, and Pieter van Hoven, and an investment vehicle, namely Luthier Capital acting through a holding company structure which will include one or more private limited liability companies to be formed or nominated by them, and structured in a manner which is compliant with the requirements of the Air Services Licensing Act of 1990, as amended;

### Additional debt funding:

The Investors have negotiated and agreed that pre-payments will be made to the Company by Discovery Limited up to the amount of R100 million in respect of services that could be provided by the Company to members of the Discovery Group including the Vitality subsidiaries. These funds are expected to be advanced to the Company upon the Operations Start Date and against the fulfilment of various conditions and are to be treated as PCF, which will be set off against future ticket sales over the ensuing period of approximately 12 months;

The Investors have made application to certain of the South African Lenders for the provision of new net debt funding totalling R600 million (after the possible repayment of existing debt) to the Company. The provision of this debt funding is subject to credit approval and the conclusion of agreements in forms and substance satisfactory to these lenders. This funding will only be provided after fulfilment, or waiver by the Investor, of the Suspensive Conditions set out in 8.1.1 and the provision of the Investors Equity in terms of 7.2.3.

Income tax treatment for Discovery?

- Section 11(a) with 23H spread?

Income tax treatment for Comair?

- Gross income plus 24C
- (CPA not applicable)

Presumably transaction is subject to VAT

Income tax and VAT treatment of:

- Raising fees
- Guarantee fees
- Consulting and legal fees
- Facility fee

## Fleet optimisation:

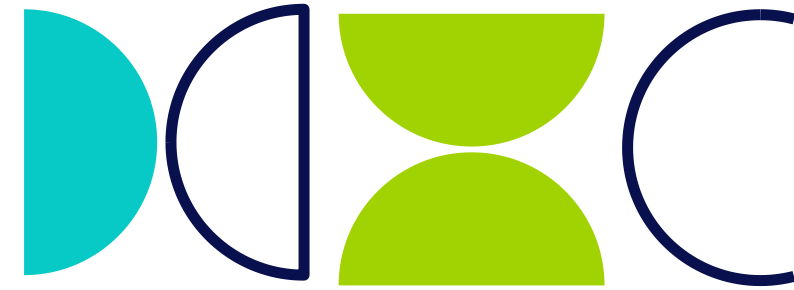
Currently the Company has 20 aircraft remaining in its Fleet;

The Investor's strategy aims to improve on historic levels of revenue by leveraging the strength of kulula.com's and British Airways' brands, especially given the potential opportunity emanating from the possible rationalisation by domestic competitors, and increasing total passenger volumes by operating additional aircraft in the future.

The Investor's Fleet strategy envisages that that the Retained Fleet will ultimately consist of 25 aircraft – 15 owned and 10 leased.

However, should future market conditions prevail, the Investors may wish to rationalise the Fleet, and conversely, should conditions improve beyond expectation, add to the Fleet.

Further, certain Lease Agreements between the Company and identified Lessors have terminated and such aircraft have, or are in the process of, being returned to those Lessors, and removed from the Company's Fleet list and insurance. The maintenance and repair operators have been advised to release the relevant aircraft from preservation maintenance.



Are there any termination penalties?



The Company's Customers are very important stakeholders and, those of them who have Unused Reservations, have been provided the option to either:

Keep the value of the booking. The value of the Customer's flight booking remains valid until 31 March 2021 and can be used to make a future flight booking with Comair, subject to availability and difference in rates, fares and/or taxes;

Become a creditor. The Customer's will be treated as Concurrent Creditors; or

Forfeit the value of the ticket: Any claim is expressly abandoned.

BUT..... If ticket sale was subject to sections 64 and 65 of the CPA, then these monies SHOULD have been kept separate...



Comair - Business Rescue Plan & Meetings

comair.co.za/business-rescue/business-rescue-plan-and-meetings

## Business Rescue Plan & Meetings

All notices related to business rescue plan and meetings will be published here.

- ➔ Status Report for Comair Limited (in Business Rescue) – 30 April 2022
- ➔ Status Report for Comair Limited (in Business Rescue) – 31 March 2022
- ➔ Interim Status Report for Comair Limited (in Business Rescue) – 23 March 2022
- ➔ Status Report for Comair Limited (in Business Rescue) – 28 February 2022
- ➔ Status Report for Comair Limited (in Business Rescue) – 31 January 2022
- ➔ Status Report for Comair Limited (in Business Rescue) – 31 December 2021
- ➔ Status Report for Comair Limited (in Business Rescue) - 30 November 2021
- ➔ Status Report for Comair Limited (in Business Rescue) - 31 October 2021
- ➔ Status Report for Comair Limited (in Business Rescue) - 30 September 2021
- ➔ Proxy Form: Creditors' Meeting Scheduled for Tuesday, 21 September 2021
- ➔ Status Report for Comair Limited (in Business Rescue) and Notice of Meeting to Amend the Plan – 31 August 2021
- ➔ Status Report for Comair Limited (in Business Rescue) - 31 July 2021
- ➔ Status Report for Comair Limited (in Business Rescue) - 08 July 2021
- ➔ Status Report for Comair Limited (in Business Rescue) - 31 May 2021
- ➔ Status Report and Notice of United States Proceedings - 30 April 2021
- ➔ Status Report and Amendments of the Published Business Rescue Plan - 31 March 2021
- ➔ Notice of Amendments to the Published Business Rescue Plan – 05 March 2021
- ➔ Status Report and Amendments to the Published Business Rescue Plan - 31 January 2021
- ➔ Status Report and Amendments to the Published Business Rescue Plan - 31 December 2020
- ➔ Status Report and Amendments to the Published Business Rescue Plan - 30 November 2020
- ➔ Notice – Amendments to Comair Business Rescue Plan
- ➔ Comair Business Rescue Plan - 2 September 2020
- ➔ Annexure A - Detailed Company Structure
- ➔ Annexure B - Creditors Claims on Voting Interests (Revised, 17 September 2020)
- ➔ Annexure B - Amendments Published 17 September 2020
- ➔ Annexure C - List of Holders of the Company's Securities
- ➔ Annexure D - Liquidation Scenario (Revised, 17 September 2020)
- ➔ Annexure E - Material Assets of the Company at 30 June 2020
- ➔ Annexure F - Management Accounts of the Company as at 30 April 2020 and 30 June 2020
- ➔ Annexure G - Investors Projections and Material Assumptions (Revised, 17 September 2020)
- ➔ Annexure H - Schedule of Post Commencement Finance Provided to Date

Compair Status Re....pdf

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2022/05/22

## Competition watchdog gives FirstRand green light to buy Comair's airport lounge business

### fin24

- The Competition Tribunal has unconditionally approved FirstRand Bank's acquisition of Kulula Air's airport lounges.
- Comair, which owns low-cost airline kulula.com and operates British Airways domestically under a licence agreement, [announced earlier this year that it wanted to sell](#) its [SLOW Lounge](#) business to FirstRand Bank in order to raise funds, Fin24 reported.
- Kulula Air owns and operates the branded airport lounges at OR Tambo International Airport in Johannesburg, King Shaka International Airport in Durban, the Cape Town International Airport and Lanseria International Airport in Gauteng. It rents the space from Airports Company South Africa.
- Comair, which is currently in business rescue, owns low-cost airline kulula.com. Kulula Air owned the SLOW Lounge business.
- Richard Ferguson, one of Comair's business rescue practitioners, previously said the capital injection from the sale would be a significant step towards the successful conclusion of the business rescue process.
- In December last year the Competition Tribunal approved FirstRand Bank's acquisition of Comair's airport lounges in Johannesburg, Cape Town and Durban to get a cash injection of about R250 million.

Sale of business vs sale of shares.

If sale of business:

Proceeds on sale to be allocated on an asset by asset basis.

- Equipment – S8(4)(a) or 11(o)
- Goodwill – CGT
- Leasehold improvements – CGT loss/gain

Sale of shares

- CGT implications
- Par 43A extraordinary dividends

Transactional cost

- VAT not deductible if sale of shares
- Selling expenses for CGT

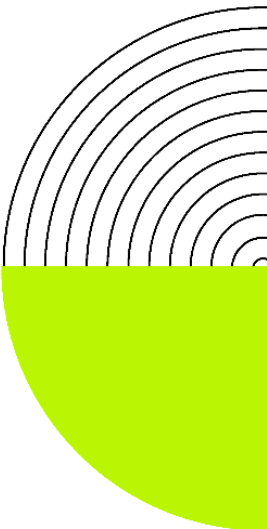
2.

## Case Study: Comair Limited

**Disputes and settlements**

**tax happy hour**

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# Disputes and Settlements

The operator has faced a number of hiccups in recent years.

- Most recently, in mid-March, regulator the SA Civil Aviation Authority (SACAA) imposed a precautionary suspension of Comair's Aircraft Operating Certificate (AOC) for five days after what it called "a series of incidents", including issues with the landing gear indicator on one of the flights.
- Meanwhile Comair's legal battle in a US court to cancel a purchase agreement of eight 737 MAX planes from [US manufacturer Boeing](#) still continues. The Boeing 737 MAX passenger airliner was grounded worldwide between about March 2019 and December 2020 after two fatal crashes - one by Lion Air and one by Ethiopian Airlines.
- The rescue practitioners also continue negotiations with aircraft lessors on revised short-term arrangements.
- Fin24 reported last week that Comair decided [to halt a retrenchment process](#) kicked off in March after pressure from the National Union of Metalworkers of SA (NUMSA) and the SA Cabin Crew Association (SACCA), but says it still needs to find ways to reduce staff and costs in order to remain sustainable.

Costs of damages?  
Is it a inevitable concomitant of running an airline that the planes will have safety issues?

Disputes relate to capital expenditures.  
Unlikely that costs incurred will be tax deductible

A lease is a "capital asset". If short term arrangements are made, then the cost may be deductible. If the negotiations create an enduring benefit – then capital

Employee disputes should be deductible

## 8. Court Awarded Settlement

The Company's claim against South African Airways SOC Limited ("SAA") for damages, arising from anti-competitive conduct, was heard in the Gauteng South High Court between 18 April and 24 August 2016. Judgement in this matter was handed down on 15 February 2017. In terms of the judgement, Comair was awarded damages in the sum of R554 million, with a capped additional amount of R554 million being awarded in respect of interest, resulting in total damages award of R1.1 billion. SAA lodged an appeal against this judgement. Comair lodged a cross appeal to recover the full amount of the damages sustained plus interest on the total amount.

On 15 February 2019, the parties agreed to enter into a full and final settlement agreement which was made an Order of Court on the same date by the Supreme Court of Appeal ("SCA"). In terms of the Settlement Agreement, SAA will pay Comair a settlement amount of R1.1 billion plus interest from the judgement date to the settlement date of R168 million ("Settlement Amount"). The Settlement Amount will be paid in accordance with a payment schedule commencing on 28 February 2019 and terminating on 28 July 2022, or earlier should SAA elect to make payments earlier than agreed. As a consequence of settlement, both Comair and SAA have withdrawn the appeal and cross-appeal currently pending before the SCA. Interest is charged at the ruling 3-month JIBAR for the period of the payment term. Should SAA fail to make any payment in accordance with the provisions of the settlement agreement, the Company will be entitled to demand settlement of the full outstanding amount.

The settlement amount has been disclosed separately on the face of the statement of profit and loss under the heading "Court awarded damages". The interest accrued from the settlement date has been accounted for under interest income in note 24.

		R'000	R'000
Net Income before tax		R1 065 630	
Effective tax rate	18.74%	199 699	Pre-tax
Applicable tax rate	28.00%	298 376	
Dividend received	-0.07%	-746	-2 664
Capital portion of court awarded settlement	-14.56%	-155 156	-554 128
Disallowable portion of IFRS 9 allowance	4.54%	48 380	172 784
Consulting and legal fees	1.52%	16 198	57 848
Depreciation on leasehold improvements	0.59%	6 287	22 454
Other	0.47%	5 008	17 887
Deferred tax - prior year adjustment	-1.75%	-18 649	-66 602

Comair took the position that the capital amount awarded of R554m is tax exempt whilst the interest is taxable.

What are tax risks associated with this position?

What about VAT implications of costs incurred?

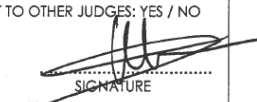
#### Reconciliation of the Tax Expense

Reconciliation between applicable tax rate and average effective tax rate.

	Company	
	2019	2018
	R'000	R'000
Applicable tax rate	28.00%	28.00%
<b>Exempt income</b>		
Income from equity accounted investments	-	-
Dividends received	(0.07%)	(0.37%)
Capital portion of court awarded settlement	(14.56%)	-
<b>Disallowable expenditure</b>		
Disallowable portion of loss allowance on court awarded settlement	4.54%	-
Impairment of goodwill	-	-
Consulting and legal fees – capital expenditure	1.52%	2.73%
Depreciation on leasehold improvements	0.59%	1.32%
<b>Other</b>	0.47%	0.50%
<b>Deferred tax – prior year adjustment</b>	(1.75%)	-
	<b>18.74%</b>	<b>32.18%</b>



[1] This is a consolidated damages action to determine whether the South African Airways (Pty) Ltd ("SAA") incentive schemes, which were found to have had an anti-competitive exclusionary effect on rival airlines in the domestic airline market by the Competition Tribunal under the Competition Act ("The Act")<sup>1</sup>, caused Comair Limited ("Comair") a loss of profits as it alleges and, if so, the quantum of that loss.

<b>DELETE WHICHEVER IS NOT APPLICABLE</b>	
(1)	REPORTABLE: YES / NO
(2)	OF INTEREST TO OTHER JUDGES: YES / NO
(3)	REVISED.
15 FEBRUARY 2017	
DATE	SIGNATURE

In the matter between:

**COMAIR LIMITED**

**Plaintiff**

and

**SOUTH AFRICAN AIRWAYS (PTY) LTD**

**Defendant**

[237] Mr Harman's summary of conclusions of Comair's damages (excluding statutory interest) calculated when SAA/SAX/SAL BSP revenues are estimated using linear interpolation from January 2005 to March 2008, is set out hereunder

Damages Period	Lost Revenues	Avoided Costs	Damages
April 2000 to May 2001 (First)	127.9	23.8	104.2
June 2001 to July 2005 (Second)	905.0	202.4	702.6
August 2005 to July 2006 (Lingering Effects)	128.2	36.8	91.4
<b>Total</b>	<b>1,161.1</b>	<b>263.0</b>	<b>898.2</b>

Award is as follows:

- Lost profits R 898m
- No growth assumption (R 344m)
- Net award R 554m

[238] An amount of R344 million should be deducted for a no growth assumption in the counterfactual scenario.



A position where Comair argues that the amount is “capital in nature” would constitute a “Tax Uncertain Position” since SARS is likely to have an opposing view. In such instances, Taxpayer’s are strongly advised to support their views with a Section 223 opinion that will protect them against understatement penalties.

Source:  
*Thesis prepared by MOGANO  
BARLEY and published by UCT*

## Taxation of damages payments

- It is of utmost importance to establish the reason behind the compensation that is received.
- This is because when a purpose has been established, it simplifies the process of determining whether an amount is received for revenue or capital purposes.
- Therefore we have to scrutinise if the compensation being received is received in order to
  - remunerate loss of the utilisation of an asset to produce income or
  - whether the compensation is looking to pay the recipient in order to compensate for the loss of the profits that the taxpayer will no longer earn as a result of that termination.
- In other words, the test here is to determine if the compensation that is received is aimed at filling the hole in the taxpayer’s assets or filling in the hole in the taxpayer’s profits.
- This was interpreted comprehensively in the case of *Burmah Steam Ship Co Ltd*.
- A statement was made by Judge Hoexter, which explained in my understanding,
  - that filling a hole in the taxpayer’s assets is to make a compensation in order to remunerate a loss of an asset that the taxpayer can no longer use to earn income as a result of the termination of the contract, and
  - on the other hand filling in a hole in the taxpayer’s profits is to pay the taxpayer an amount of compensation that the taxpayer would have received as income had the termination not happened.



# Boeing

Originally, the claim was for damages suffered due to delay in delivery and grounding of aircraft.

- Comair concluded an agreement with Boeing during 2013 for the purchase of eight Boeing 737 MAX 8 aircraft, originally scheduled for delivery between 2019 and 2022.
- The first 737 MAX 8 aircraft was delivered slightly behind schedule on 25 February 2019. The global 737 MAX 8 fleet was, however, grounded by the Federal Aviation Administration during March 2019, just as delivery was planned for our second 737 MAX 8 aircraft.
- As a consequence our second aircraft has not been delivered. The delivery of the second aircraft is now expected to take place in February 2020. The third 737 MAX 8 which is currently schedule for delivery in February 2020, is only expected to be delivered in June 2020.
- Due to the uncertainty regarding the future delivery of this aircraft type, Comair has negotiated a delay in the delivery of the next five 737 MAX 8 aircraft to between the 2023 and 2025 financial years.
- Comair has suffered significant losses due to the grounding of the MAX fleet and will be instituting a compensation claim against Boeing once the fleet status has been resolved and the claim properly quantified.

This was changed and Comair is now in a legal battle in a US court to cancel the purchase agreement of eight 737 MAX planes. The tax implications of legal fees and damages paid/received may be different.

2.

## Case Study: Comair Limited

2019 AFS

**tax happy hour**

The logo for 'tax happy hour' features the words 'tax happy' in a bold, black, sans-serif font, followed by 'hour' in a similar font. The letter 'o' in 'hour' is replaced by a stylized speech bubble containing a black mouse cursor arrow. Below the text is a simple black smiley face with a curved line for a mouth. A horizontal green line is positioned below the text.

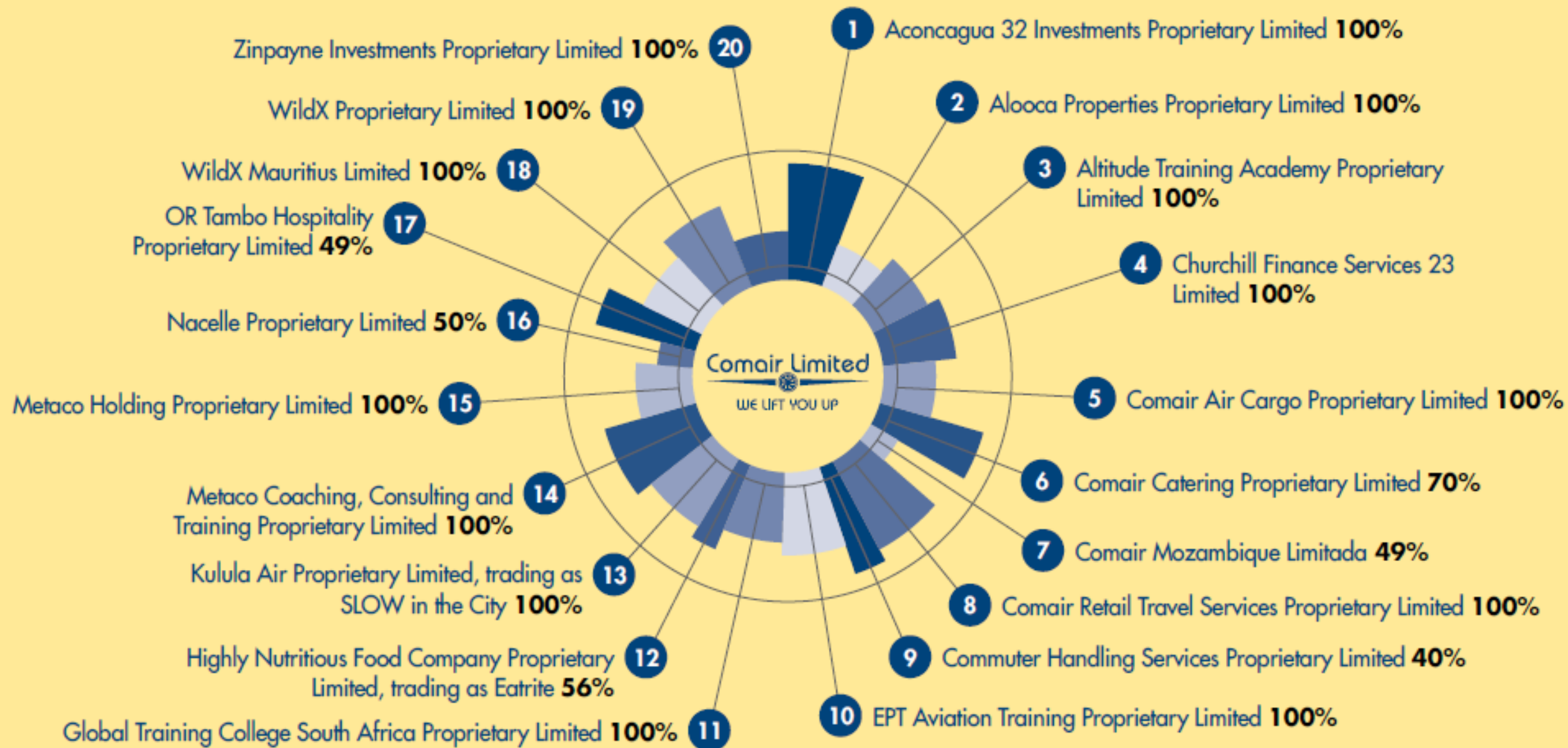
# VALUE ADDED STATEMENT

Strategic/Group objective	Indicator	Actual 2016/17	Actual 2017/18	Actual 2018/19
Creating Shareholder value	Net profit (after tax)	296 970 000	325 611 000	896 809 000
	Total turnover/Group revenue	6 063 737 000	6 536 540 000	7 125 642 000
	Operating expenses	4 999 789 000	5 412 752 000	6 263 975 000
	Dividends paid to Shareholders	83 776 000	88 528 000	102 506 000
	Interest on loans	250 377 000	248 938 000	256 774 000
	Current taxation	4 269 000	8 902 000	6 687 000
Commitment to quality	On time performance	BA:85%	BA: 85%	BA: 79%
		kulula: 85%	kulula: 84%	kulula: 78%
	Investment in assets (property, plant and equipment)	965 821 000	907 872 000	1 115 327 000
Managing risk	Number of significant safety incidents	0	1	2
	Number of consecutive unqualified audits by IOSA	6	7	7
Leading as a responsible corporate citizen	Carbon inventory – all scopes – footprint per employee (tonnes of CO <sub>2</sub> emissions)	331.51	314.32	301.62
	% of carbon emissions relating to scope 1	82%	83%	83%
	% of carbon emissions relating to scope 2	1%	1%	1%
	% of carbon emissions relating to scope 3	16%	16%	16%
	No. of legislative/regulatory breaches	0	0	0
	Total staff cost	1 001 889 000	1 132 838 000	1 189 525 000
	Number of South African employees	2 105	2 206	2 193
	Overall Employment Equity ("EE") representation	1 479	1 516	1 531
	% Staff members belonging to a union	42%	47%	47.5%
Provide growth and development opportunities for staff	% Spend of training or training investment (% of salary spend)	4.4%	4.75%	3%
	Employee turnover rate	10.19%	4.8%	10.4%
	% Female representation	63.8%	63.6%	63.4%
Operational effectiveness	Quantity of fuel consumed per passenger/fuel burn per passenger (kg per passenger)	30.93	29.19	27.00
	Number of passengers carried	5 545 214	5 801 191	5 981 803
	Aircraft and flight simulator spend	1 083 201 000	712 919 000	1 288 297 000
	Number of owned aircraft	19	18	16
	Number of leased aircraft	7	8	9
	Electricity consumed (kWh)	5 283 795	5 028 480	4 967 065









VAT, PAYE, Dividend Tax and Income Tax contributions are not reflected in Value-Added Statement.

Payments to Government is often published so that the company can be seen as a responsible corporate citizen

# How We Are Structured



Name of subsidiary	Principal activity	% ownership interest
		2019
Aconcagua 32 Investments Proprietary Limited	Property rental	100.00%
Alooca Properties Proprietary Limited*	Property rental	100.00%
Kulula Air Proprietary Limited*	Business lounge	100.00%
Comair Catering Proprietary Limited*	Catering services	70.00%
Comair Retail Travel Services Proprietary Limited	Travel agency	100.00%
Churchill Finance Services 23 Limited	Financing (company is currently dormant and in process of deregistration)	100.00%
Comair Air Cargo Proprietary Limited*	Air freight (company is currently dormant)	100.00%
Highly Nutritious Food Company Proprietary Limited**	Catering services	56.00%
EPT Aviation Training Proprietary Limited	Cabin crew training academy	100.00%
Global Training College South Africa Proprietary Limited	Ground-school and travel and tourism training academy	100.00%
Zinpayne Investments Proprietary Limited	Dormant shelf company	100.00%
Altitude Training Academy Proprietary Limited (formerly Crostyle Investments Proprietary Limited)	Training academy (company is currently dormant)	100.00%
WildX Proprietary Limited*	Travel agency	100.00%
WildX Mauritius Limited*	Travel agency	100.00%
Metaco Holdings Proprietary Limited^	Leadership development academy	100.00%
Metaco Coaching, Consulting & Training Proprietary Limited^*	Leadership development academy	100.00%

Value	Inputs	Outputs	Outcomes
Financial	<p>Share capital <b>R4 651 000</b></p>  <p>Interest bearing loans <b>R3 385 412 000</b></p>	<p>Cash generated from operations <b>R1 112 982 000</b></p> <p>Operating Income <b>R283 806 000</b></p> <p>Capital expenditure <b>R1 115 327 000</b></p>  <p>Revenue <b>R7 125 642 000</b></p>	<p>ROI <b>11.0%</b></p> <p>Net interest-bearing debt <b>R3 385 412 000</b></p> <p>Dividends paid <b>R102 506 000</b></p> 
Manufactured	<p>Aircraft Fleet</p>  <p>Owned <b>16</b> Leased <b>9</b></p>  <p>Property</p> <p>Alooca Properties (Pty) Ltd Aconcagua 32 Investments (Pty) Ltd</p> 	<p>The Group has entered into an <b>agreement with Lufthansa Technik</b> for the maintenance of our Boeing 737-800 and 737 MAX 8 aircraft which will improve service performance.</p> 	<p>We have increased the number of passengers carried by <b>4%</b> since 2018 with less flights operated.</p>  <p>We have maintained <b>7</b> successive unqualified audits by IOSA.</p> <p>Development of property, plant and equipment spend was <b>R1 115 327 000</b> during the past financial year.</p>

At 30 June 2019, the company was profitable and solvent. It was however highly geared and exposed to market fluctuations. The company was in an "expansionary" mode by diversifying its interests.

		Group		Company	
	Notes	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	3	6 314 910	5 509 614	6 122 704	5 315 954
Intangible assets	4	29 667	14 970	29 667	14 970
Investments in and loans to subsidiaries	5	-	-	173 821	184 059
Investments in associates	6	67 649	52 645	-	-
Investment in joint venture	7	2 845	-	-	-
Court awarded settlement	8	360 203	-	360 203	-
Goodwill	9	13 169	13 169	-	-
Deferred taxation	14	3 807	3 853	-	-
		<b>6 792 250</b>	<b>5 594 251</b>	<b>6 686 395</b>	<b>5 514 983</b>
<b>Current assets</b>					
Inventories	10	21 731	18 849	20 576	17 988
Trade and other receivables	11	527 960	324 628	499 780	317 671
Loans to subsidiaries	5	-	-	4 214	163
Court awarded settlement	8	267 977	-	267 977	-
Taxation		633	485	-	-
Cash and cash equivalents		536 204	685 437	475 149	630 624
		<b>1 354 505</b>	<b>1 029 399</b>	<b>1 267 696</b>	<b>966 446</b>
<b>Total assets</b>		<b>8 146 755</b>	<b>6 623 650</b>	<b>7 954 091</b>	<b>6 481 429</b>

Increased investment in modernisation of aircraft



		Group		Company	
	Notes	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<b>Equity and liabilities</b>					
<b>Equity</b>					
Share capital	12	4 651	4 651	4 693	4 693
Accumulated profits		2 566 518	1 774 220	2 411 514	1 648 836
Equity attributable to equity holders of the parent		2 571 169	1 778 871	2 416 207	1 653 529
Non-controlling interest		2 934	929	-	-
<b>Total equity</b>		<b>2 574 103</b>	<b>1 779 800</b>	<b>2 416 207</b>	<b>1 653 529</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Interest-bearing liabilities	13	2 338 648	2 176 595	2 338 648	2 176 595
Deferred taxation	14	771 436	571 726	771 436	571 726
Share-based payments	15	1 027	-	1 027	-
		<b>3 111 111</b>	<b>2 748 321</b>	<b>3 111 111</b>	<b>2 748 321</b>
<b>Current liabilities</b>					
Trade and other payables	16	1 028 943	895 075	984 735	875 408
Unutilised ticket liability		286 111	312 244	286 111	312 244
Provisions	17	98 396	134 807	98 339	134 697
Loan from Share Incentive Trust	18	-	-	816	72
Loans from subsidiaries	5	-	-	10 008	5 374
Interest-bearing liabilities	13	1 046 764	741 896	1 046 764	741 896
Taxation		1 327	1 619	-	-
Share-based payments	15	-	9 888	-	9 888
		<b>2 461 541</b>	<b>2 095 529</b>	<b>2 426 773</b>	<b>2 079 579</b>
<b>Total liabilities</b>		<b>5 572 652</b>	<b>4 843 850</b>	<b>5 537 884</b>	<b>4 827 900</b>
<b>Total equity and liabilities</b>		<b>8 146 755</b>	<b>6 623 650</b>	<b>7 954 091</b>	<b>6 481 429</b>
Net asset value per share (cents)		553.5	382.7		

Company is solvent with profits increasing despite R100m dividend paid.

	Notes	Group		Company	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
<b>Revenue</b>	20	<b>7 125 642</b>	<b>6 536 540</b>	<b>7 050 830</b>	<b>6 493 734</b>
Operating expenses		(6 263 975)	(5 412 752)	(6 200 199)	(5 401 207)
<b>Operating profit before depreciation, amortisation, property rental income, unrealised translation loss on dollar denominated loan, impairments and profit on sale of assets</b>		<b>861 667</b>	<b>1 123 788</b>	<b>850 631</b>	<b>1 092 527</b>
Depreciation and amortisation		(558 079)	(443 237)	(554 922)	(442 335)
Property rental income		5 929	-	-	-
Impairment of subsidiary loans	5	-	-	(2 428)	(5 875)
Impairment of subsidiary investment	5	-	-	(30 294)	-
Impairment of goodwill	9	(28 989)	-	-	-
Unrealised translation loss on dollar denominated loan		(5 986)	(12 056)	(5 986)	(12 056)
Profit on sale of assets		9 264	2 085	9 264	1 656
<b>Profit from operations</b>	21	<b>283 806</b>	<b>670 580</b>	<b>266 265</b>	<b>633 917</b>
Court awarded settlement	8	1 276 866	-	1 276 866	-
IFRS 9 loss allowance on court awarded settlement	8	(284 857)	-	(284 857)	-
Remeasurement of contingent consideration on business combination	22	17 434	-	17 434	-
Dividend income	23	-	-	2 600	5 630
Interest income	24	46 328	36 611	43 777	33 869
Interest expense	25	(256 774)	(248 938)	(256 455)	(248 741)
Gain on remeasurement of non-current assets held for sale		-	12	-	12
Income from equity accounted investments	6, 7	20 449	12 979	-	-
<b>Profit before taxation</b>		<b>1 103 252</b>	<b>471 244</b>	<b>1 065 630</b>	<b>424 687</b>
Taxation	26	(206 443)	(145 633)	(199 699)	(136 683)
<b>Profit for the year</b>		<b>896 809</b>	<b>325 611</b>	<b>865 931</b>	<b>288 004</b>

Airport taxes?

Add – Back and claim  
12C and 11(e)

Add - Back

S4I – also subsection (7)

Allocation of purchase  
price on business  
acquisition. IFRS 3  
Business combinations

Interest expense is  
significant.

## 26. Taxation

### Major Components of the Tax Expense

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<b>Current</b>				
Local income tax – current period	6 698	8 902	-	-
Local income tax – prior periods	(11)	-	(11)	-
Deferred tax – current	218 357	136 731	218 311	136 683
Deferred tax – prior year adjustment	(18 601)	-	(18 601)	-
	<b>206 443</b>	<b>145 633</b>	<b>199 699</b>	<b>136 683</b>

### Reconciliation of the Tax Expense

Reconciliation between applicable tax rate and average effective tax rate.

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Applicable tax rate	28.00%	28.00%	28.00%	28.00%
<b>Exempt income</b>				
Income from equity accounted investments	(0.52%)	(0.77%)	-	-
Dividends received	(0.07%)	(0.33%)	(0.07%)	(0.37%)
Capital portion of court awarded settlement	(14.07%)	-	(14.56%)	-
<b>Disallowable expenditure</b>				
Disallowable portion of loss allowance on court awarded settlement	4.39%	-	4.54%	-
Impairment of goodwill	0.74%	-	-	-
Consulting and legal fees – capital expenditure	1.47%	2.46%	1.52%	2.73%
Depreciation on leasehold improvements	0.57%	1.19%	0.59%	1.32%
<b>Other</b>	(0.11%)	0.36%	0.47%	0.50%
<b>Deferred tax – prior year adjustment</b>	(1.69%)	-	(1.75%)	-
	<b>18.71%</b>	<b>30.91%</b>	<b>18.74%</b>	<b>32.18%</b>

No provision has been made for tax in 2019, as the Company has no taxable income. The estimated tax loss available for set off against future taxable income is R670.9 million (2018: R701.9 million).

Large assessed loss – However does not preclude SARS from charging USP

## 14. Deferred Taxation

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Deferred tax liability	(771 436)	(571 726)	(771 436)	(571 726)
Deferred tax asset	3 807	3 853	-	-
<b>Net deferred tax liability</b>	<b>(767 629)</b>	<b>(567 873)</b>	<b>(771 436)</b>	<b>(571 726)</b>

### On Temporary Differences Arising from:

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Plant, equipment and intangible assets	(1 098 198)	(882 990)	(1 101 988)	(886 812)
Staff obligations and accruals	43 984	54 732	43 967	54 701
Doubtful debt allowance on court awarded settlement	23 522	-	23 522	-
Unutilised ticket liability	80 111	87 428	80 111	87 428
Pre-payments	(4 906)	(4 995)	(4 906)	(4 995)
Calculated tax loss	187 858	177 952	187 858	177 952
	<b>(767 629)</b>	<b>(567 873)</b>	<b>(771 436)</b>	<b>(571 726)</b>

Section 12C on aircraft 20% per annum

# Unutilised ticket liability

## Current liabilities

Unutilised ticket liability	286 111	312 244
-----------------------------	---------	---------

Tax implications of this income is complex

Airline revenue comprises flight revenue on commercial passenger travel. Flight revenue is recognised at the time of flight and the unutilised ticket liability represents tickets sold but not yet flown.

# The Consumer Protection Act

IT 24510 deals with gross income vs  
CPA

## *Prepaid services and access to service facilities*

64.(1) *If, in terms of any agreement, a consumer agrees or is required to pay—...*

(b) *any amount in respect of services or access to services to be provided at a date more than 25 business days after the payment is made, other than by way of a prepayment device contemplated in section 63,*

*the amount so paid remains the property of the consumer until the supplier makes a charge against it in accordance with subsection (2).*

(2) *A supplier may make a charge against the consumer's money contemplated in subsection (1) once each month in advance for the pro-rata portion of the amount so held, as required to pay the ensuing month's cost of the membership or service.*

Section 65(2) of the CPA reads as follows:

(2) *When a supplier has possession of any prepayment, deposit, membership fee, or other money, or any other property belonging to or ordinarily under the control of a consumer, the supplier—*

(a) *must not treat that property as being the property of the supplier;*

(b) *in the handling, safeguarding and utilisation of that property, must exercise the degree of care, diligence and skill that can reasonably be expected of a person responsible for managing any property belonging to another person; and*

(c) *is liable to the owner of the property for any loss resulting from a failure to comply with paragraph (a) or (b).*

Major parts such as engines, Avionics,  
etc?

### 3. Property, Plant and Equipment

	2019		
	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
<b>Group</b>			
Properties and buildings	290 483	(11 474)	279 009
Leasehold improvements	142 675	(81 426)	61 249
Aircraft and related equipment	6 845 308	(1 571 011)	5 274 297
Flight simulator equipment	134 340	(70 719)	63 621
Pre-delivery payments	551 357	-	551 357
Vehicles, furniture and equipment and computer equipment	225 648	(140 271)	85 377
<b>Total</b>	<b>8 189 811</b>	<b>(1 874 901)</b>	<b>6 314 910</b>

	2019		
	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
<b>Company</b>			
Properties and buildings	106 168	(11 474)	94 694
Leasehold improvements	134 186	(78 244)	55 942
Aircraft and related equipment	6 845 308	(1 571 011)	5 274 297
Flight simulator equipment	134 340	(70 719)	63 621
Pre-delivery payments	551 357	-	551 357
Vehicles, furniture and equipment and computer equipment	220 678	(137 885)	82 793
<b>Total</b>	<b>7 992 037</b>	<b>(1 869 333)</b>	<b>6 122 704</b>

## 5.2 Loans to Subsidiaries

	Company	
	2019	2018
	R'000	R'000
<b>Non-current</b>		
Alooca Properties Proprietary Limited	145 209	156 224
Highly Nutritious Food Company Proprietary Limited	777	-
	<b>145 986</b>	<b>156 224</b>
<b>Current</b>		
Kulula Air Proprietary Limited	12 490	11 953
Kulula Air Proprietary Limited – loss allowance	(12 490)	(11 953)
Comair Catering Proprietary Limited	112	103
Comair Retail Travel Services Proprietary Limited	-	38
Comair Air Cargo Proprietary Limited	19	19
Zinpayne Investments Proprietary Limited	12	3
WildX Proprietary Limited	4 071	-
Metaco Holdings Proprietary Limited	1 891	-
Metaco Holdings Proprietary Limited – loss allowance	(1 891)	-
	<b>4 214</b>	<b>163</b>

All loans are unsecured, have no fixed repayment terms and are interest free.

Due to the nature of the loan to Alooca Properties Proprietary Limited, the Directors view the loan as non-current due to the continuous investment of funds and the long-term nature of the underlying property assets. The loan is therefore considered to form part of the net investment.

The loan to Kulula Air Proprietary Limited has been subordinated in favour of other creditors of the borrower, until such time as its assets, fairly valued, exceed its liabilities.

Interest free loans  
must be funded  
from surplus cash



Why is catering equipment –  
inventories?

## 10. Inventory

	Group		Company	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Catering equipment and consumables	22 958	20 369	21 803	19 508
Allowance for obsolete stock	(1 227)	(1 520)	(1 227)	(1 520)
	<b>21 731</b>	<b>18 849</b>	<b>20 576</b>	<b>17 988</b>
Carrying value of inventory carried at net realisable value	21 731	18 849	20 576	17 988

S22 and VWSA and Atlas CopCo  
cases

## 11. Trade and Other Receivables

	Group		Company	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Trade and other receivables consist of the following:				
Trade receivables	293 001	205 075	288 599	215 881
Loss allowance	(14 374)	(14 260)	(37 185)	(31 048)
Trade receivables at amortised cost	278 627	190 815	251 414	184 833
Deposits	153 407	133 813	152 449	132 838
VAT	95 926	-	95 917	-
Non-financial assets	249 333	133 813	95 917	-
	<b>527 960</b>	<b>324 628</b>	<b>499 780</b>	<b>317 671</b>

The deposits consist mainly of aircraft lease rental deposits, as well as rental deposits, municipal deposits and pre-delivery payment deposits not yet capitalised to property, plant and equipment.

## 13. Interest-bearing Liabilities

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
<b>Rand Merchant Bank</b>				
<b>Aircraft instalment sale agreement</b>	114 131	146 659	114 131	146 659
Less: Finance raising fees	(4 962)	(6 414)	(4 962)	(6 414)
Instalment sale agreement payable in 40 quarterly instalments with the final payment due on 12 October 2022. Interest is charged at a variable rate – currently 8.3% (prior year: 8.2%). The current instalment is R10 million.				
One aircraft mortgage serves as collateral covering security with a net book value of R261 million (prior year: R274 million).				
<b>Aircraft instalment sale agreement</b>	114 111	146 634	114 111	146 634
Less: Finance raising fees	(4 846)	(6 300)	(4 846)	(6 300)
Instalment sale agreement payable in 40 quarterly instalments with the final payment due on 12 October 2022. Interest is charged at a variable rate – currently 8.3% (prior year: 8.2%). The current instalment is R10 million.				
One aircraft mortgage serves as collateral covering security with a net book value of R256 million (prior year: R269 million).				
<b>Aircraft instalment sale agreement</b>	100 777	131 713	100 777	131 713
Less: Finance raising fees	(4 373)	(5 754)	(4 373)	(5 754)
Instalment sale agreement payable in 40 quarterly instalments with the final payment due on 12 July 2022. RMB has entered into a selldown agreement with Nedbank for this loan. Interest is charged at a variable rate – currently 8.3% (prior year: 8.2%). The current instalment is R10 million.				
One aircraft mortgage serves as collateral covering security with a net book value of R236 million (prior year: R250 million).				
This loan was prepaid in full on 1 August 2019, with the associated aircraft being refinanced on the same date with Absa Bank for an amount of R341.1 million.				

- Tax treatment of raising fees?
- Instalment sale agreement vs Finance Lease

## Private Export Funding Corporation

### Aircraft instalment sale agreement

Less: Finance raising fees

A USD-based aircraft instalment sale agreement payable in 40 quarterly instalments with the final payment due on 15 November 2022. Interest is charged at a fixed rate of 2.35%. The current instalment is USD1 million.

One aircraft mortgage serves as collateral covering security with a net book value of R267 million (prior year: R278 million).

	194 976	241 571	194 976	241 571
	(5 049)	(6 527)	(5 049)	(6 527)

- Tax treatment of raising fees?
- Section 24I forex – realised and unrealised

**Investec Limited**

**Working capital loan – VAT facility**

This loan forms part of a facility granted by the bank for the facilitation of VAT payments on aircraft imported into South Africa. Cross collateralisation of properties serves as security for this loan. There are no repayment terms and interest is charged quarterly at a variable rate – currently 9.25%. The facility ends in November 2020.

120 096

25 202

120 096

25 202

Short term loan. Output VAT is paid on importation of aircraft. Claim immediately and receive refund from SARS.

**Boeing 737 MAX 8**

A facility for pre-delivery payments required for three new 737 MAX 8 aircraft on order. The facility is secured by an assignment of the Aircraft Purchase Agreement in favour of Investec. The facility is repayable on delivery of the relevant aircraft. The facility is in USD and earns at a variable interest rate monthly – currently 5.2% (prior year: 4.8%). The next two aircraft are scheduled for delivery in February 2020 and June 2020 respectively (re-certification of the aircraft type dependant).

267 468

298 980

267 468

298 980

Section 24I(7) may apply. Forex gain and loss carried forward until the date the aircraft is brought into use.

**Working capital loan**

The available facility is R180 million. The monthly remittance from British Airways PLC stands security for this loan. There are no repayment terms and interest is charged monthly at a variable rate – currently 8.8%. The facility ends in June 2020. R70 million of capital was repaid on this loan in August 2019.

120 088

-

120 088

-

Need to de-link the dividend payment of R100m and the increased working capital loan. Risk non-deductibility of interest

## 20. Revenue

### Revenue from Contracts with Customers

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
The Group disaggregates revenue from customers as follows:				
Flight revenue	6 669 626	6 172 897	6 669 626	6 172 897
Rendering of services	384 470	285 553	323 124	261 617
- Lounges and catering	327 050	234 069	285 713	227 982
- Simulators and other training	57 420	46 398	37 411	33 635
- Property rental income*	-	5 086	-	-
Commissions received	62 108	65 265	54 753	52 773
- Travel agency commissions	61 942	64 304	54 587	51 812
- Airline commissions	166	961	166	961
Other	9 438	12 825	3 327	6 447
	<b>7 125 642</b>	<b>6 536 540</b>	<b>7 050 830</b>	<b>6 493 734</b>

\* Due to the adoption of IFRS 15 the property rental income was moved out of revenue as the amount is no longer revenue as defined. Refer to the Statements of Profit or Loss for details of current year rental income.

All seems taxable subject to IT 24510 and CPA

Prov for audit fees to be added back at Y/E

## 21. Profit from Operations

	Group		Company	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
<b>Operating expenses are stated after incorporating the following items:</b>				
Auditors remuneration	1 323	1 941	1 172	1 848
Managerial, technical, administrative and secretarial services	98 149	62 817	98 149	62 283
<b>Directors' remuneration (included in total staff costs)</b>				
- for services as Directors and related committee work	3 781	3 762	3 781	3 762
- for managerial and other services	15 586	15 586	15 586	20 417
- retirement and medical benefits	2 433	1 901	2 433	1 901
- long-term incentive profit component	-	3 661	-	3 661
- share-based payments – 2021 Scheme	1 027	-	1 027	-
- share-based payments – 2018 Scheme	-	4 483	-	4 483
	<b>22 827</b>	<b>34 224</b>	<b>22 827</b>	<b>34 224</b>

Straight lining of leases to be unwound for tax.  
Straight lining of leases replaced by IFRS 16.

	Group		Company	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
<b>Rentals under operating leases</b>				
Property				
- Straight-lined amounts	41 812	42 293	46 505	45 006
Equipment and vehicles				
- Straight-lined amounts	5 671	4 987	5 384	4 877
Aircraft leases				
- Straight-lined amounts	412 561	243 738	412 561	243 738
	<b>460 044</b>	<b>291 018</b>	<b>464 450</b>	<b>293 621</b>
Employment costs	1 107 942	1 052 582	1 090 528	1 047 500
Contributions to defined contribution funds	81 583	80 256	81 583	80 256
<b>Total staff costs</b>	<b>1 189 525</b>	<b>1 132 838</b>	<b>1 172 111</b>	<b>1 127 756</b>
Number of employees	2 193	2 206		
Profit on exchange differences	36 790	25 129	36 790	25 129
Share-based payment expense	1 027	4 856	1 027	4 856



## 25. Interest Expense

	Group		Company	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Total interest paid	273 481	255 847	273 162	255 650
Bank interest	256 464	248 938	256 455	248 741
Other interest	310	-	-	-
Interest capitalised to pre-delivery payments	16 707	6 909	16 707	6 909
Less: amount capitalised as borrowing costs (See note 3)	(16 707)	(6 909)	(16 707)	(6 909)
	<b>256 774</b>	<b>248 938</b>	<b>256 455</b>	<b>248 741</b>

Section 24J claimable even if asset has not been brought into use yet.



## 35. Subsequent Events

Subsequent to year-end, steps have been taken to disinvest from the Group's poor performing acquisition, namely Metaco Holdings Proprietary Limited and its subsidiary Metaco Coaching, Consulting and Training Proprietary Limited. As such the Group has impaired R29 million in goodwill at year-end in addition to derecognising the fair-value of the contingent consideration amounting to R17.4 million at year-end, as the conditions for this contingent consideration can longer be met.

Purchased consulting company for upfront payment as well as earn-out payments.

This acquisition was abandoned on 3/4/2020  
VAT and Income Tax treatment of transactional costs?  
Uncertain if damages payable?

## 35. Subsequent Events

Comair is in the process of acquiring 100% of the issued share capital of Star Air Cargo Proprietary Limited and Star Air Maintenance Proprietary Limited. Star Air Cargo specialises in the wet, dry or damp leasing on short- to medium-terms leases to airlines in Africa; with Star Air Maintenance providing the maintenance requirements for its own fleet as well as for third-party aircraft.

The transaction is still subject to approval by the Competition Authorities as a condition precedent to the transaction which must still be fulfilled in order for ownership to take effect from the effective date.

The purchase consideration is R75 million plus profit share payments but capped at R250 million. The R75 million is due to be paid as follows:

- R30 million within five business days of the fulfilment of all Conditions Precedent;
- R22.5 million on the first anniversary of the Completion Date subject to the aggregate net profit after tax of Star Air Maintenance and Star Air Cargo, as determined by their auditors, being positive for the twelve months preceding 30 June 2020 as stated in their annual financial statements, failing which none of the R22.5 million is payable; and
- R22.5 million on the second anniversary of the Completion Date, subject to the aggregate net profit after tax of Star Air Maintenance and Star Air Cargo, as determined by their auditors, being positive for the twelve months preceding 30 June 2021 as stated in their annual financial statements, failing which none of the R22.5 million is payable.

The Company shall also pay the Sellers an amount equal to 83% of the net profit after tax (excluding Comair business) as stated in the annual financial statements of Star Air Cargo and Star Air Maintenance for a period of three years commencing after the effective date.

## 1.9 Share-based Payment Transactions

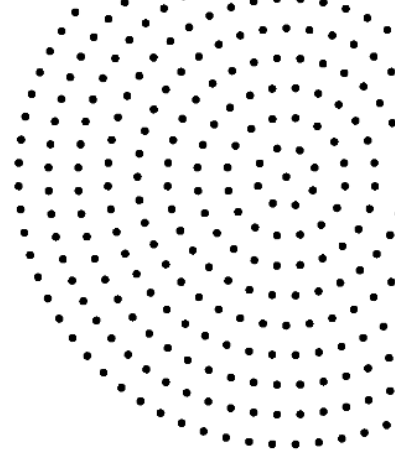
### Cash Settled

Options are granted to certain employees in the Group. The fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date using the Black-Scholes Option Valuation Model and expensed over the period during which the employee becomes unconditionally entitled to payment. Management assesses the number of options that will ultimately vest based on non-market vesting conditions at each reporting period until vesting, but the assessment of the fair value of the option against the market performance of the share price, is done at each reporting period end up to and including settlement date.

Share options that expire or are forfeited are reversed against the liability raised with an adjustment to profit or loss. The fair value of the instruments granted is measured against market performance of the share price. The liability is measured at each reporting date and at settlement date, with all movements in fair value being recognised in profit or loss.

Perspective of employee:  
Taxed on market value of share when "able to freely dispose" of the share even if not sold. (I.e. date of vesting)

Perspective of employer:  
If equity settled: not tax deductible  
If cash settled – arguably tax deductible



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SEE YOU AGAIN

29 June 2022  
Wednesday

**tax happy hour**

