Hulisani

HULISANI LIMITED
Registration number 2015/363903/06
(Incorporated in the Republic of South Africa)
("the Group" or "the Company")
Share code: HUL
ISIN: ZAE000212072

SUMMARISED CONSOLIDATED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2019

Salient features

- First full twelve-month period of operation
- Pleasing operating performance from investments made
- Total dividend flow from investments higher than expected
- Positive cash from operating activities
- Recent relaxation of regulations around licensing of projects below 10 Megawatts presents exciting opportunities and significant pipeline

Introduction

Hulisani is an investment holding company that generates dividend income on its investments, which are largely focused on energy projects ranging from gas, solar PV, concentrated solar, wind and hydro in South Africa and in Sub-Saharan Africa.

Shareholders should note that this is the first full twelve-month period in which the company has earned income from investment activities, having acquired its equity investments during the February 2018 financial year, after it ceased to be a Special Purpose Acquisition Company ("**SPAC**") on 22 March 2017. Accordingly, the comparable year (February 2018) includes equity investments acquired during the year and income earned for only a portion of the financial year, whereas the February 2019 financial year includes income from these investments for the full twelve-month period.

Hulisani's key portfolio includes:

- 25% interest in GRI Wind Steel;
- 6.7% interest in the Kouga Wind Farm;
- 66% shareholding in the RustMo1 Solar Farm; and
- An interest in the Avon and Dedisa Peaking Power Plants, held indirectly through a convertible loan into Legend Power Solutions (which holds 27% in each of the Avon and Dedisa Peaking Power Plants).

Financial review

Group results

Group revenue, which consists of sales of electricity from RustMo1 Solar, increased to R50.4 million from R37.4 million, largely as a result of timing, considering this is the first full twelve-month period of operation for the Group. Similarly, the increase in Group operating costs from R57.7 million to R73.3 million is largely attributable to timing considerations.

Considering the significant growth in investments over the past year, Group cash costs rose to R48.7 million, largely attributable to salaries and non-recurring investment-related consultancy fees, amounting to R8.8 million. The net cash from operating activities amounts to R11m.

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Company results

Hulisani's investments are largely paying better dividends than anticipated and, at the holding company level, dividends increased from R18.1 million to R36.9 million. Dividends received from Kouga Wind Farm were 60% higher at R24 million, against budgeted dividends of R15 million. The dividend received from RustMo1 Solar Farm was as budgeted at R12,3 million.

The increased investment activity at the holding company resulted in higher operating expenses of R33.9 million. The operating results before non-cash expenses amount to R3 million. Non-cash expenses include impairment losses, depreciation and expected credit loss provisions. Operating costs include non-recurring expenses of R9.4m, consisting mainly of advisory and legal fees relating to the year's investment activities. The operating results before non-cash expenses and non-recurring expenses amount to R12.4m.

The following table reflects the group operating financial results for the year ended 28 February 2019 compared to the corresponding financial period:

	Group Audited 2019 R'000	Group Audited 2018 R'000	Variance R'000	Variance (%)
Revenue	50,371	37,378	12,993	35
Operating expenses	(73,303)	(57,699)	(15,604)	(27)
Finance income	7,485	10,107	(2,622)	(26)
Finance costs	(14,863)	(12,298)	(2,565)	(21)
Share of losses from associates	(5,911)	(6,492)	581	9
Impairment loss	-	(60,299)	60,299	100
Fair value adjustment	1,654	(25,055)	26,709	107
Loss before tax	(34,611)	(113,381)	-78,770	69

Headline losses which exclude extraordinary items, such as impairments, to reflect results from normal operating activities improved to R40.5 million from R56.6 million. The Group's basic losses improved to R40.5 million from R116,8 million, which relates largely to an improvement in impairments in the current year.

While net cash from operating activities for the Group is positive, certain accounting factors contributed to the losses, which include:

- Amortisation charges on the intangible assets that arose as a result of the purchase price allocation at Group level;
- Equity accounted investments' share of losses, which relate to the investment in GRI. GRI manufactures wind towers and has been affected by the delay of the Power Purchase Agreements (PPAs), which were recently signed. New wind tower orders have now improved its prospects; and
- Provisions for expected credit losses as a result of the implementation of the new IFRS 9.

Fair value gain/(loss)

A fair value loss of R25 million was recognised in the statement of profit or loss and other comprehensive income in our previous year's Annual Financial Statements on the Legend Power Solution convertible loan. In the current year under review, a fair value gain of R1.6 million was recognised in the statement of profit or loss and other comprehensive income. This was driven by improved revenue projections in line with increased activity of the plant.

Outlook

South Africa's energy sector, specifically from renewable sources, remains attractive especially considering the recent signing of Power Purchase Agreements (PPAs) for Independent Power Producers (IPPs) by the Minister of the Department of Energy (DOE) and Eskom. This is a very encouraging development in terms of policy certainty in South Africa which is further amplified by the government's commitment to finalise the Integrated Resource Plan 2019 and commence Round 5 of the Renewable Energy Independent Power Producer Programme (REIPPP) as well as the Gas to Power Programme (GTPP) in South Africa.

Hulisani's portfolio of advanced projects in the renewable energy sector will benefit from the signing of the recent PPAs and enhance its returns. It will further benefit from the upcoming REIPPP and GTPP projects. Hulisani's current projects pipeline in the secondary market is approximately R1.2 billion in the focus projects – this is in relation to operating and revenue generating energy assets within South Africa.

Opportunities for IPPs in South Africa are continually being created, especially for captive power plants where power is generated for specific clients. The recent relaxation of regulations around licensing of projects below 10 Megawatts presents a great opportunity and significant pipeline for Hulisani. This provides Hulisani with additional opportunities to pursue investments to create a pipeline of projects in this area and grow the company's quality energy asset base and diversify its sources of revenue. Hulisani will continue to actively build capability and aggressively pursue opportunities in the renewable energy sector with a view to achieve greater scale, diversity and flexibility in our asset base. Hulisani is also continually assessing various forms of funding to enable the conclusion of the focus projects in the pipeline.

Directors

The following changes to the board of directors took effect during the period under review:

Directors	Designation	Nationality	Changes
NP Gosa*	Non-executive Independent	South African	Resigned 31 December 2018
MH Zilimbola#	Non-executive	South African	Resigned 22 February 2019
MH Zilimbola#	Non-executive	South African	Appointed alternate director 26 February 2019
MF Modau (Chief Investment Officer)	Executive	South African	Resigned 28 February 2019

* Independent Non-executive

Non-independent Non-executive

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Summarised consolidated statement of financial position as at 28 February 2019

	Note(s)	Group 2019 R '000	Group 2018 R '000
Assets			
Non-current asset			
Property, plant and equipment	8	125,771	133,914
Intangible assets	9,10	145,965	152,830
Investments in associates	4	118,829	148,810
Investment at fair value through profit and loss	5	76,786	75,143
Loans receivable	6	10,127	-
Investment at amortised cost	7	19,276	-
Financial asset at fair value through other comprehensive income	7	-	8,961
		496,754	**519,658**
Current Assets			
Trade and other receivables		22,475	29,140
Cash and cash equivalents		31,697	35,517
		54,172	**64,657**
Total Assets		**550,926**	**584,315**
Equity and Liabilities			
Equity			
Stated capital		500,000	500,000
Non-distributable reserves		-	773
Accumulated loss		(165,093)	(122,874)
Equity attributable to equity holders of parent		334,907	377,899
Non-controlling interest		30,370	34,625
		365,277	**412,524**
Liabilities			
Non-Current Liabilities			
Long term borrowings	11	110,895	121,692
Deferred tax liability		39,616	35,814
		150,511	**157,506**
Current Liabilities			
Trade and other payables		15,382	3,722
Borrowings	11	11,470	10,563
Dividend payable		3,247	-
Bank overdraft		5,039	-
		35,138	**14,285**
Total Liabilities		**185,649**	**171,791**
Total Equity and Liabilities		**550,926**	**584,315**

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Summarised consolidated statement of comprehensive income for the year ended 28 February 2019

	Note(s)	Group 2019 R '000	Group 2018 R '000
Revenue		50,371	37,378
Other income		17	977
Operating gains /(losses)		1,593	(25,055)
Operating expenses		(73,303)	(57,699)
Impairment loss		-	(60,299)
Operating loss		**(21,322)**	**(104,698)**
Investment income		7,485	10,107
Finance costs		(14,863)	(12,298)
Share of the loss from equity accounted investments	4	(5,911)	(6,492)
Loss before taxation		**(34,611)**	**(113,381)**
Taxation		(3,797)	(2,463)
Loss for the year		**(38,408)**	**(115,844)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Changes in the fair value of available-for-sale financial asset		-	773
Other comprehensive income for the year		**-**	**773**
Total comprehensive loss for the year		**(38,408)**	**(115,071)**
Loss for the year attributable to:			
Owners of the parent		(40,475)	(116,864)
Non-controlling interest		2,067	1,020
		(38,408)	**(115,844)**
Total comprehensive loss attributable to:			
Owners of the parent		(40,475)	(116,091)
Non-controlling interest		2,067	1,020
		(38,408)	**(115,071)**
Basic and diluted loss per share (c)	**14**	**(81)**	**(234)**

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Summarised consolidated statement of changes in equity for the year ended 28 February 2019

28 February 2019	Stated capital	Non-distributable reserves	Accumulated loss	Total attributable to equity holders of the company	Non-controlling interest	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000
Group						
Balance at 01 March 2017	**500,000**	**-**	**(6,010)**	**493,990**	**-**	**493,990**
Loss for the year	-	-	(116,864)	(116,864)	1,020	(115,844)
Other comprehensive income	-	773	-	773	-	773
Total comprehensive loss for the year	**-**	**773**	**(116,864)**	**(116,091)**	**1,020**	**(115,071)**
Dividends paid	-	-	-	-	(5,027)	(5,027)
Business combinations	-	-	-	-	38,632	38,632
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**-**	**-**	**-**	**33,605**	**33,605**
Opening balance as previously reported	**500,000**	**773**	**(122,874)**	**377,899**	**34,625**	**412,524**
Adjustments						
Change in accounting policy (Note 2)	-	(773)	(1,744)	(2,517)	-	(2,517)
Balance at 01 March 2018 as restated	**500,000**	**-**	**(124,618)**	**375,382**	**34,625**	**410,007**
Loss for the year	-	-	(40,475)	(40,475)	2,067	(38,408)
Total comprehensive loss for the year	**-**	**-**	**(40,475)**	**(40,475)**	**2,067**	**(38,408)**
Disposal of a subsidiary	-	-	-	-	272	272
Dividends	-	-	-	-	(6,594)	(6,594)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**-**	**-**	**-**	**(6,322)**	**(6,322)**
Balance at 28 February 2019	**500,000**	**-**	**(165,093)**	**334,907**	**30,370**	**365,277**

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Summarised consolidated statement of cash flows for the year ended 28 February 2019

		Group	
		2019	2018
	Note(s)	R '000	R '000
Cash flows from operating activities			
Cash (used in)/generated from operations		11,044	(30,533)
Net cash from operating activities		**11,044**	**(30,533)**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(1,148)	(628)
Sale of property, plant and equipment	8	109	-
Business combinations		-	(100,464)
Acquisition of investments in associates	4	-	(223,951)
Subscription of debt investments at amortised cost		(12,500)	-
Purchase of financial assets		-	(108,188)
Interest received		4,866	8,000
Dividends received		17,156	8,350
Net cash from investing activities		**8,483**	**(416,881)**
Cash flows from financing activities			
Proceeds from borrowings	11	622	-
Repayment of borrowings	11	(10,512)	(2,697)
Dividends paid		(3,347)	(5,027)
Interest paid		(15,149)	(7,896)
Net cash from financing activities		**(28,386)**	**(15,620)**
Total cash movement for the year		**(8,859)**	**(463,034)**
Cash at the beginning of the year		35,517	498,551
Total cash at end of the year		**26,658**	**35,517**

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Notes to the Summarised consolidated financial statements for the year ended 28 February 2019

1. Basis of presentation

The summarised consolidated financial statements for the year ended 28 February 2019 have been prepared in accordance with the JSE Limited Listings Requirements (Listings Requirements) and the requirements of the Companies Act, Act 71 of 2008 applicable to summarised financial statements. The Listings Requirements require financial statements to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), 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 contain the information required by IAS 34 Interim Financial Reporting. The summarised consolidated financial information should be read in conjunction with the consolidated financial statements for the year ended 28 February 2019, which have been prepared in accordance with IFRS.

The summarised consolidated financial statements were prepared under the supervision of the chief financial officer, MP Dem, CA (SA).

Audit opinion

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 auditor's report thereon are available for inspection at the Company's registered office and on the Company's website. The directors take full responsibility for the preparation of the summarised consolidated financial statements and that the financial information has been correctly extracted from the underlying annual financial statements.

Accounting policies

The accounting policies applied in preparing the summarised consolidated financial statements are in terms of IFRS and consistent with those applied in the previous annual financial statements, except for the adoption of new accounting policies as set out below:

- *IFRS 15 – Revenue from contracts with customers*; Revenue from customer contract derived from providing services is recognised in the accounting period in which the services are rendered, and at a point in time. The adoption of this new standard had no material impact on the revenue recognition.
- *IFRS 9 – Financial instruments*; All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The measurement of impairment losses is based on an expected credit loss model, which takes into account the probability weighting as well as forward looking information. The impact is detailed in note 3.

2. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
The areas involving significant estimates or judgements are:

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(i) Investment in associates decision.

Hulisani holds 100% of issued shares in Red Cap Investments (Pty) **("Red Cap")** Ltd and Eurocape Renewables (Pty) Ltd **("Eurocape")**. Red Cap and Eurocape hold 5.46% and 1.21% interest in Kouga Wind Farm (RF) (Pty) Ltd respectively, combined to 6.67%.

Hulisani management made a judgement regarding the classification of this acquisition to an investment in associates as Hulisani has a directorship representation in the board of the investee. The board representation indicates a level of significant influence by Hulisani.

(ii) Estimated fair value of financial assets at fair value through profit and loss.

Hulisani issued a convertible loan to Legend Power Solutions. The group has elected to classify the financial asset at fair value through profit and loss. The fair value is determined by using the discounted cash flow method by discounting the dividend income. The expected cash flows are discounted using an appropriate discount rate. In determining the recoverable amount, the group made key assumptions on base revenue from underlying plant operations, discount rate and period of operation. The loan participates in 9% of distributable profits available to LPS' shareholders. On maturity the loan will convert to 9% of equity in LPS.

(iii) Impairment of investments in subsidiaries.

Management identified impairment indicators relating to the investments in Red Cap Investments (Pty) Ltd (**"Red Cap"**), Eurocape Renewables (Pty) Ltd (**"Eurocape"**), Pele SPV13 (Pty) Ltd and Momentous Technologies (Pty) Ltd (**"Momentous"**). The nature of the investments is that the values wind down over time, in line with the passing of the agreed time in the Power Purchase Agreements with Eskom. The expected cash flows are discounted using an appropriate discount rate. In determining the expected cash flows, the group made key assumptions on forecasted revenue and discount rate.

(iv) Goodwill impairment.

The carrying value of goodwill in the group is R45m and arose on acquisition of a majority stake in RustMo1 Solar Farm (Pty) Ltd (**"RustMo1"**). RustMo1 is considered to be a separately identifiable cash generating unit and goodwill has been allocated to this cash generating unit. The recoverable amount of goodwill was based on a value in use discounted cash flow method. In determining the recoverable amount, the group made key assumptions on forecasted revenue and the discount rate.

(v) IFRS 9 Expected Credit Losses

Hulisani management made a judgement regarding the assessment of receivables for impairments using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit loss allowance of the respective items at the date they were initially recognised and at statement of financial position date.

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's history, existing market conditions as well as forward looking estimates at the end of each reporting period.

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3. Change in accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Application of IFRS 9 Financial Instruments

In the current year, the group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for 1) the classification and measurement of financial assets and 2) impairment for financial assets. Details of these new requirements as well as their impact on the group's financial statements are described below. The group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 01 March 2018. Accordingly, the group has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 01 March 2018 and has not applied the requirements to instruments that have already been derecognised as at 01 March 2018. Comparatives in relation to instruments that have not been derecognised as at 01 March 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings at 01 March 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The measurement requirements are summarised below:

- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.
- Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.
- All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.
- Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected loss model. This contrasts the incurred loss model of IAS 39.

The directors reviewed and assessed the group's existing financial assets as at 01 March 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the group's financial assets as regards to their classification and measurement:

Debt instruments

(i) Reclassification of Ignite preference shares from available-for-sale to amortised cost

In line with IFRS 9 requirements management assessed the classification of the preference shares in reference to the business model of the group. The financial asset meets both criteria of hold to collect business model test; and solely payments of principal and interest (SPPI) contractual cash flow characteristics test, as such it has been classified as subsequently measured at amortised cost under IFRS 9. This resulted to a reclassification of the Ignite preference shares from available-for-sale to investment at amortised cost. The impact of the reclassification is noted as a change in accounting policy, and the fair value adjustment of R773k recognised in the prior year has been reversed in the beginning of the prior year (Refer to note 7).

The main effects resulting from this reclassification are as follows:

Financial assets – 01 March 2018	**Fair value through other comprehensive income (Available-for-sale)**	**Investment at amortised cost**
	R'000	**R'000**
Closing balance 28 February 2018 – IAS 39	8,961	-
Reclassify preference shares from available-for-sale to amortised cost	(8,188)	8,188
Opening balance 01 March 2018 – IFRS 9	**773**	**8,188**

The impact of these changes on equity is as follows:

	Effect on Available-for-sale Reserves	**Effect on retained earnings**
	R'000	**R'000**
Opening balance – IAS 39	773	-
Reclassify preference shares from available-for-sale to amortised cost	(773)	(773)
Opening balance 01 March 2018 – IFRS 9	**-**	**(773)**

(ii) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the group to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income, lease receivables, contract assets and loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables in certain circumstances.

As at 01 March 2018, the directors reviewed and assessed the group's existing financial assets and amounts due from customers for impairment using reasonable and supportable information that was available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 01 March 2018 and 28 February 2019.

Impact on the financial statements

IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in a restated balance sheet as at 28 February 2018 but are recognised in the opening balance sheet on 1 March 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be reconciled from the numbers provided.

Balance sheet (Extract)	**28 February 2018**	**IFRS 9**	**01 March 2018 Restated**
	R'000	**R'000**	**R'000**
Trade and other receivables	29,140	(1,744)	27,396
Total assets	**29,140**	**(1,744)**	**27,396**
Retained earnings	29,140	(1,744)	27,396
Total equity	**29,140**	**(1,744)**	**27,396**

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS 9

The following table presents a summary of the financial assets as at 01 March 2018. The table reconciles the movement of financial assets from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. "FVPL" denotes "fair value through profit or loss".

Previous measurement		**New measurement category: IFRS 9**	
	IAS 39	**FVPL – designated**	**Amortised cost**
Previously Fair value through profit or loss (designated):			
Convertible loan	75,143	75,143	-
Previously Loans and receivables:			
Trade and other receivables	29,140	-	29,140
Previously Available for sale:			
Redeemable preference shares	8,961	-	8,961
	113,244	**75,143**	**38,101**

Application of IFRS 15 Revenue from contracts with customers

In the current year, the group has applied IFRS 15 Revenue from Contracts with Customers (as revised in April 2016) and the related consequential amendments to other IFRSs. IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. However, the group derives revenue from the sale of electricity at a point in time, to a single external customer, Eskom. Revenue is measured at the transaction price agreed under the contract. The group recognises revenue when the amount of revenue can be reliably measured. Revenue is recognised in the amount to which the group has a right to invoice. The customer is invoiced on a monthly basis and consideration is payable when invoiced.

Therefore, adoption of IFRS 15 did not have a significant impact on revenue recognition.

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4. Investments in associates

The table below provides a summary of the investments the group holds in associates. A detailed breakdown is provided for each investment.

	Group	
	2019 R'000	**2018 R'000**
Balance at the beginning of the period	148,810	-
Addition	-	223,951
Impairment loss	-	(60,299)
Loss attributable to Hulisani Limited	(5,911)	(6,492)
Dividends received	(24,070)	(8,350)
Balance at the end of the period	**118,429**	**148,810**

Summarised financial information of material associates

(a) Kouga Wind Farm (Pty) Ltd

Hulisani holds 100% of issued shares in Red Cap Ltd and Eurocape. Red Cap and Eurocape hold 5.46% and 1.21% interest in Kouga Wind Farm (RF) (Pty) Ltd respectively, combined to 6.67%. Red Cap and Eurocape are investment holding companies.

	Group	
	2019 R'000	**2018 R'000**
Balance at the beginning of the period	122,312	-
Addition	-	141,450
Impairment loss	-	(14,314)
Profit attributable to Hulisani Limited	5,318	3,526
Dividends received	(24,070)	(8,350)
Balance at the end of the period	**103,560**	**122,312**

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(b) GRI Wind Steel SA (Pty) Ltd

On 27 July 2017 the Company acquired 50% of the share capital in Pele SPV13 (Pty) Ltd (**"Pele SPV13"**) for a cash consideration of R41.25m and subscribed for preference shares of R41.25m to Pele SPV198 (Pty) Ltd (**"Pele SPV198"**). The transaction resulted in an acquisition of a 25% stake in GRI Wind Steel South Africa (Pty) Ltd ("GRI") by Pele SPV13. The preference share subscription agreement includes a requirement that Pele SPV198 pledges its shares held in Pele SPV13 to Hulisani until the preference share funding is repaid. Therefore, until such time the preference shares have been repaid risks and rewards associated to Pele SPV198 investment in Pele SPV13 have transferred to Hulisani. In addition, at the end of the reporting period Pele SPV198 has an option to acquire the 50% interest in Pele SPV13 once the preference share funding has been repaid. The value of the option however has been determined to be immaterial.

	Group	
	2019 R'000	**2018 R'000**
Balance at the beginning of the period	26,498	-
Addition	-	82,501
Impairment loss	-	(45,985)
Loss attributable to Hulisani Limited	(11,229)	(10,018)
Balance at the end of the period	**15,269**	**26,498**

5. Investments at fair value through profit or loss

Convertible loan to Legend Power Solution (Pty) Ltd

Hulisani Limited issued a convertible loan to Legend Power Solution (Pty) Ltd (**"LPS"**), a company with an underlying investment in Avon and Dedisa Peaking Power. The loan participates in 9% of distributable profits available to LPS shareholders and will convert to a 9% equity stake in LPS. The loan will convert when senior funding in LPS has been fully repaid to the lender. Management has elected to measure the financial asset at fair value through profit or loss.

	Group	
	2019 R '000	**2018 R '000**
Designated at fair value through profit or loss:		
Convertible loan to Legend Power Solution	76,786	75,143
	76,786	**75,143**

	Group	
	2019	2018
	R'000	R'000
Balance at the beginning of the period	75,143	-
Additions	-	100,000
Fair value gain/(loss)	1,643	(24,857)
Balance at 28 February 2018	**76,786**	**75,143**

Refer to Note 13 for further information on valuation inputs.

6. Loans receivables

(i) Loan to Pele Green Energy (Pty) Ltd

The loan to Pele Green Energy (Pty) Ltd (**"Pele Green"**) is issued for a period of 5 years, repayable annually on the anniversary of the issue date. The interest rate is set at prime rate plus 2%.

(ii) Loan to Ignite Energy Projects (Pty) Ltd

Hulisani has a receivable to the value of R5m to Ignite Energy Projects (Pty) Ltd (**"Ignite"**), the loan bears no interest and has no repayment terms.

Loans receivable are presented at amortised cost, which is net of loss allowance, as follows:

	Group	
	2019	2018
	R '000	R '000
Pele Green Energy (Pty) Ltd	5,877	-
Ignite Energy Projects (Pty) Ltd	4,250	-
	10,127	

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for loans receivable as at the end of the financial period:

Group - 2019

Instrument	Basis of loss allowance	Gross Carrying amount R'000	Loss allowance R'000	Amortised cost R'000
Pele Green Energy (Pty) Ltd	12m ECL	6,679	(802)	5,877
Ignite Energy Projects (Pty) Ltd	12m ECL	5,000	(750)	4,250
		11,679	**(1,552)**	**10,127**

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7. Investment at amortised cost

Preference shares to Ignite Energy Projects (Pty) Ltd

Hulisani Limited has invested in preference share issued by Ignite Energy Projects (Pty) Ltd (**"Ignite"**) to the value of R20.7m. The preference shares redeem in 5 years, and the interest rate is set at prime plus 2.35%. Refer to note 3 for detail on the reclassification of the investment.

The investment is presented at amortised cost, which is net of loss allowance, as follows:

	Group	
	2019	**2018**
	R '000	**R '000**
Ignite Energy Projects (Pty) Ltd	19,276	8,961
	19,276	**8,961**

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for the investment as at the end of the financial period:

2019

Instrument	Basis of loss allowance	Gross Carrying amount R'000	Loss allowance R'000	Amortised cost R'000
Ignite Energy Projects (Pty) Ltd	12m ECL	22,678	(3,402)	19,276
		22,678	**(3,402)**	**19,276**

8. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Land	2,212	-	2,212	2,212	-	2,212
Plant and machinery	135,496	(14,831)	120,665	135,025	(6,356)	128,669
Furniture and fixtures	2,810	(854)	1,956	2,783	(434)	2,349
Motor vehicles	595	(40)	555	248	(56)	192
Office equipment	375	(123)	252	372	(60)	312
IT equipment and software	330	(199)	131	278	(98)	180
Total	**141,818**	**(16,047)**	**125,771**	**140,918**	**(7,004)**	**133,914**

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Reconciliation of property, plant and equipment – 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Land	2,212	-	-	-	2,212
Plant and machinery	128,669	471	-	(8,475)	120,665
Furniture and fixtures	2,349	27	-	(420)	1,956
Motor vehicles	192	595	(139)	(94)	555
Office equipment	312	3	-	(63)	252
IT equipment and software	180	52	-	(101)	131
	133,914	**1,148**	**(139)**	**(9,152)**	**125,771**

Reconciliation of property, plant and equipment – 2018

	Opening balance R'000	Additions R'000	Additions through business combinations R'000	Disposals R'000	Depreciation R'000	Total R'000
Land & Building	-	-	2,212	-	-	2,212
Plant and machinery	-	-	135,025	-	(6,356)	128,669
Furniture and fixtures	2,292	471	2	-	(416)	2,349
Motor vehicles	-	-	248	-	(56)	192
Office equipment	323	49	-	-	(60)	312
IT equipment and software	141	108	-	-	(69)	180
	2,756	**628**	**137,487**	**-**	**(6,957)**	**133,914**

Property, plant and equipment encumbered as security

The following assets have been encumbered as security for the secured long-term borrowings:

	Group	
	2019 R'000	**2018 R'000**
Property, plant and equipment:		
- Land and building	2,212	2,212
- Plant and machinery	120,664	128,669
- Other assets	620	215
Total non-current assets pledged as security	**123,496**	**131,096**
Total assets pledged as security	**123,496**	**131,096**

The fixed asset register is available for inspection at Hulisani's registered address.

9. Intangible assets

	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Development cost	25,030	(2,661)	22,369	25,030	(1,140)	23,890
Goodwill	44,761	-	44,761	44,761	-	44,761
Customer contract	88,188	(9,353)	78,835	88,188	(4,009)	84,179
Total	**157,979**	**(12,014)**	**145,965**	**157,979**	**(5,149)**	**152,830**

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
	R'000	R'000	R'000
Development cost	23,890	(1,521)	22,369
Goodwill	44,761	-	44,761
Customer contract	84,179	(5,344)	78,835
	152,830	**(6,865)**	**145,965**

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Addition through business combinations	Amortisation	Total
	R'000	R'000	R'000	R'000	R'000
Development cost	-		25,030	(1,140)	23,890
Goodwill	-	44,761	-	-	44,761
Customer contract	-		88,188	(4,009)	78,835
	-	**44,761**	**113,218**	**(5,149)**	**152,830**

Refer to note 10 for further details on goodwill.

10. Goodwill

	2019			2018		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000
Goodwill	44,761	-	44,761	44,761	-	44,761
Total	**44,761**	**-**	**44,761**	**44,761**	**-**	**44,761**

Reconciliation of goodwill – 2019

	Opening balance R '000	Total R '000
Goodwill	44,761	44,761
	44,761	**44,761**

Reconciliation of goodwill - 2018

	Opening balance R '000	Additions through business combinations R '000	Total R '000
Goodwill	-	44,761	44,761
	-	**44,761**	**44,761**

The goodwill relates to the acquisition of the RustMo1 Solar Farm (Pty) Ltd ("RustMo1") and it is mainly attributable to the deferred tax liability recognised on the fair value of intangible assets.

Impairment of goodwill

For impairment testing goodwill acquired through business combinations is allocated to the RustMo1 CGU, which is also an operating and a reportable segment.
The carrying amount of the goodwill allocated to the CGU:

	RustMo1 R'000	Total R'000
Goodwill	44,761	44,761
	44,761	**44,761**

The group performed its annual impairment test at 28 February 2019. The recoverable amount of the cash generating unit to which goodwill has been allocated to is based on value in use discounted cash flow method. No impairment loss was recognised on goodwill in the period under review.

The recoverable amount has been determined based on a value in use calculation using cash flow projections from financial model approved by senior management covering the remaining period of the Power Purchase Agreement ("PPA").

The key inputs to the discounted cash flow model are as follows:

- Discount rate – 13.2%
- Base revenue - Base revenue is determined using the energy rate inflated at CPI over the term of the Power Purchase Agreement. The base revenue in the cash flow projections, year ending 28 February 2020, is R51.6 million.

The model is most sensitive to changes in base revenue and discount rate.

- If all assumptions remained unchanged, a 5% decrease in base revenue results in a decrease in the recoverable amount, and further impairment of R9m;
- If all assumptions remained unchanged, a 1% increase in discount rate results in a decrease in the recoverable amount, and further impairment of R6m.

11. Borrowings

	Group	
	2019	2018
	R '000	R '000
Held at amortised cost		
Secured		
Nedbank loan	60,735	65,978
IDC loan	61,008	66,277
Unsecured		
Lead Africa Capital loan	622	-
	122,365	**132,255**
Split between non-current and current portions		
Non-current liabilities	110,895	121,692
Current liabilities	11,470	10,563
	122,365	**132,255**

	Group	
	2019	2018
	R'000	R'000
Balance at the beginning of the period	132,255	-
Arising from acquisition of subsidiary	-	134,952
Addition	622	-
Repayments	(10,512)	(2,697)
	122,365	**132,255**

IDC loan

The IDC loan is secured, bears interest at 11.60% and is repayable in semi-annual instalments over a term of 14 years.

Nedbank

The Nedbank loan is secured, bears interest at 11.65% and is repayable in semi-annual instalments over a term of 14 years.

Lead Africa Capital loan

The Lead Africa loan is unsecured, bears interest at prime plus 1% and was repaid on 31 March 2019.

(i) Assets pledged as security

See note 8 for all assets pledged as security

12. Contingencies

Momentous Technology ("MT") is the original developer "RustMo1" project and initially held 15% of the shares in RustMo1. Momentous acquired a further 51% in RustMo1 in the prior year from Evolution One en Commandite Partnership. The relationship between inter alia Evolution and MT in respect of their shareholding in Rustmo1 was regulated by an Amended and Restated Shareholders Agreement (the **"SHA"**), dated 4 November 2012. The SHA entitled Evolution to subscribe for additional shares in RustMo1 should the RustMo1 project Internal Rate of Return (**"IRR"**) be lower than the agreed IRR on the Adjustment Date (being 16 November 2016). Having undertaken its own calculations, Evolution was of the view that it did not achieve the minimum project agreed IRR and sought to enforce its right to subscribe for shares in RustMo1 on the Adjustment Date.

On 2 November 2018, Evolution initiated arbitration proceedings at the Arbitration Foundation Southern Africa to enforce its rights. Management has engaged external legal counsel and believes it has a strong case and no provision is required at this point.

13. Fair value information

Fair value hierarchy

Levels of fair value measurements

The following presents the group's financial instruments measured and recognised at fair value at 28 February 2019. The group has classified its financial instruments into the three levels prescribed under the accounting standards.

Level 3

	Group	
	2019	**2018**
	R'000	**R'000**
Recurring fair value measurements		
Assets		
Financial assets designated at fair value through profit (loss)		
Convertible loan	76,786	75,143
	76,786	**75,143**

Transfers of assets and liabilities within levels of the fair value hierarchy

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Reconciliation of assets and liabilities measured at level 3

	Notes	Opening balance R'000	Purchases R'000	Gains/(losses) recognised in profit(loss) R'000	Gains/(losses) recognised in other comprehensive income R'000	Closing balance R'000
Group – 2019						
Assets						
Financial assets designated at fair value through profit (loss)	**11**					
Convertible loan		75,143	-	1,643	-	76,786
Total		**75,143**	**-**	**1,643**	**-**	**76,786**
Group – 2018						
Assets						
Financial assets designated at fair value through profit (loss)	**11**					
Convertible loan		-	100,000	(24,857)	-	75,143
Total		**-**	**100,000**	**(24,857)**	**-**	**75,143**

Information about valuation techniques and inputs used to derive level 3 fair values convertible loan

The key unobservable inputs, together with the weighted average range of probabilities, are as follows:

	Relationship of unobservable inputs to fair value	
	High	**Low**
Discount rate	The higher the discount rate the lower the fair value	The lower the discount rate the higher the fair value
Base revenue from plant operation	The higher the base revenue the higher the fair value	The lower the base revenue the lower the fair value
Period of operation	The longer the period the higher the fair value	The shorter the period the lower the fair value

The fair value is determined by using the discounted cash flow method by discounting the dividend income. LPS has underlying investment in the Avon and Dedisa open cycle gas/diesel turbine (OCGT) plants. The dividend income is based on the operational results of the Avon and Dedisa plant.
The key inputs to the discounted cash flow model of the underlying operational plants are as follows:

1. Discount rate – 13.6%
2. Base revenue from plant operation – Base revenue is determined using the Power Purchase Agreement capacity rate for Dedisa and for Avon. The base revenue in the cash flow projections of Dedisa and Avon, year ending 28 February 2020, is R2.5 billion.
3. Period of operation - 30 years

The model is most sensitive to changes in base revenue from operations, discount rate and period of operation.
If all assumptions remained unchanged, a 5% decrease in base revenue results in a further reduction in fair value of R14m;
If all assumptions remained unchanged, a 1% increase in discount rate results in a further reduction in fair value of R8m.
If all assumptions remained unchanged, a 5 year reduction in the period of operation results in a further reduction in fair value of R9m.

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Valuation processes applied by the Group

The group finance department obtains input from independent valuation experts in performing valuations of financial assets required for financial reporting purposes, including level 3 fair values. The valuations expert communicates directly with the chief financial officer (CFO).
The convertible loan is valued by using the Dividend Discount Model. The discount rates used for the valuations are the prevailing market rates at the time of the valuations.
The group conducts valuations twice a year, at the interim financial reporting period and also at the year-end reporting

14. Earnings per share

Reconciliation between earnings and headline earnings is as follows:

	Group	
	2019	**2018**
	R '000	**R '000**
Basic and diluted loss per share (cents)	(81)	(234)
Basic and diluted headline loss per share (cents)	(81)	(113)

The calculation of earnings per share for the year ended 28 February 2019 was based on the loss attributable to ordinary shareholders of Hulisani Limited, and a weighted average number of ordinary shares.

	Group	
	2019	**2018**
	R '000	**R '000**
Reconciliation of profit or loss for the year to headline earnings		
Profit or loss for the year attributable to equity holders of the parent	(40,475)	(116,864)
Adjustments:		
Effects of remeasurements for subsidiaries, net of NCI and tax:	14	60,299
Impairment loss	-	60,299
Loss on sale of property, plant and equipment	20	-
Tax effect	(6)	-
Headline earnings	**(40,461)**	**(56,565)**
Weighted average number of ordinary shares ('000)	50,000	50,000

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15. Related parties

Related party balances

	Group	
	2019 R '000	2018 R '000
Trade receivables (a)	650	-
Loans receivable (a)	6,679	
Other receivables (b)	5,201	5,201
Loan receivables (c)	-	416

(a) A subsidiary of Pele Green (Pty) Ltd, Pele SPV198 (Pty) Ltd entered into an agreement with Hulisani Limited to jointly subscribe for ordinary shares in Pele SPV13 (Pty) Ltd. Hulisani Limited subscribed for cumulative preference shares in Pele SPV198 (Pty) Ltd for the entity's funding of the ordinary shares subscription in Pele SPV13 (Pty) Ltd. Other receivables are due from Pele Green Energy (Pty) Ltd, a parent company to Pele SPV198 (Pty) Ltd.

(b) Sponsor fees refundable to Hulisani by Nibira (Pty) Ltd. The payment was rendered invalid and the amount remains owing to the group at the end of the financial period.

(c) The loan is provided to Umhlaba Land Lease Co., Momentous Technologies and Optimise Advisory Services (Pty) Ltd subsidiaries of Hulisani, and Gromac Holding (Pty) Limited an associate of the Group. Hulisani has provided working capital funding to the subsidiaries, in line with the shareholder's agreement.

Related party transactions

	Group	
	2019 R '000	2018 R '000
Consulting fees (a)	2,467	4,765
Dividends (b)	3,297	2,514
Management fees (c)	2,458	3,580

(a) Umhlaba Land Lease Co. (Pty) Ltd and Optimise Advisory Solution (Pty) Ltd used the consulting services of GraysMaker Advisory (Pty) Ltd and Marsay (Pty) Ltd respectively.

(b) Dividends were paid to Momentous Solar Farm (Pty) Ltd by RustMo1.

(c) Management fees were paid to Momentous Operations Services (Pty) Ltd by RustMo1.

Compensation to directors and other key management

	Group	
	2019 R '000	2018 R '000
Short-term employee benefits	7,737	6,534
	7,737	**6,534**

16. Dividends

There are no dividends declared for the period.

17. Going concern

The summarised consolidated results for the year ended 28 February 2019 which are a summarised set of the audited financial statements, have been prepared on a going concern basis. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

On behalf of the Board
ME Raphulu
Chief Executive Officer

Registered Office:
4th Floor, North Tower, 90 Rivonia Road, Sandton, Gauteng.

Auditors:
PricewaterhouseCoopers Inc.

Sponsor:
PSG Capital Proprietary Limited

Transfer secretaries:
Computershare Investor Services Proprietary Limited, 70 Marshall Street Johannesburg, 2001

Company secretary:
The Paperclip, 31 Pineview Estate, Pineview Road, Kengies, Fourways, 2146

Directors:
ME Raphulu (Chief Executive Officer), MP Dem (Chief Financial Officer), PC Mdoda* (Chairman), A Notshe^, MH Zilimbola^ (Alternate director), DR Hlatshwayo*, HH Schaaf*#, B Marx*.
* Independent Non-executive # German ^ Non-independent Non-executive

Johannesburg

31 May 2019

Sponsor
PSG Capital