

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 financial results for the year ended 29 February 2020

Hulisani Group

(Registration number 2015/363903/06)

Trading as Hulisani Limited

Financial Results for the year ended 29 February 2020



Results Overview

1. Group overview

Hulisani management is pleased to present the results for the year ended 29 February 2020. The financial year under review was characterised by a focus on simplifying the business, steadily building up scale, and working towards long-term growth for Hulisani while containing costs and increasing value for our stakeholders. Our assets continue to demonstrate strong performance and are cash generative. In difficult trading circumstances, we are pleased to continue to report positive cashflow from our investments line with our business strategy.

2. Nature of the business

Hulisani Limited ("Hulisani" or the "Company") as an investment holding company has focus on power generation projects ranging from gas, diesel, solar PV, concentrated solar, wind and hydro, in South Africa and in Sub-Saharan Africa, and is the ultimate holding company of the group. The current investments made by the group which are operational are highlighted below:

- RustMo1 Solar Farm (Pty) Ltd ("RustMo1") is a material subsidiary and was the first IPP to be connected to the grid and one of the 18 solar PV power plants constructed in the first round of the REIPPP. The 7MW plant has a 20-year year Power Purchase Agreement to supply electricity to Eskom that commenced in 2013. Hulisani has a 66% shareholding in RustMo1.
- Kouga Wind Farm (Pty) Ltd ("Kouga") is an investment Hulisani has significant influence over. Kouga is one of the first wind farms to be connected under the REIPPP and has a 20-year Power Purchase Agreement to supply electricity to Eskom.
- GRI manufactures wind turbine towers used in energy production. The investment is accounted for by the group as a derivative (call option).
- Legend Power Solutions (Pty) Ltd ("LPS") has invested in Avon and Dedisa Open Cycle Gas Turbine (OCGT) peaking power plants and Hulisani participates in 9% of the distributable profits of LPS.
- Other investments include financial instruments held in the group.

3. Impact of COVID-19

The Hulisani board recognises the current impact of the COVID-19 pandemic and specifically the extended national lockdown on the economy of South Africa, as well as government's decision to safeguard the health of all South Africans. Notwithstanding the COVID-19 pandemic and the expected severe impact of the lockdown on economic projections, Hulisani's investments have outlined their business continuity plans to ensure that operations are not interrupted during the lockdown as the provision of power has been declared an essential service in South Africa. As an investor in assets in the Renewable Energy sector Hulisani's investments provide energy to the national utility ESKOM on the back of long term, government backed power purchase agreements, and which also cater for conditions of low electricity demand.

Notwithstanding the designation of Hulisani's investments as essential services, one of the investments, Kouga Wind Farm, received correspondence from the national utility of their intention to declare the lockdown a *force majeure*, which would absolve ESKOM from its obligation to procure power from the power plant during the lockdown period. Kouga has sought legal advice and indications are that the lockdown does not constitute a *force majeure* as defined in the Power Purchase Agreement with ESKOM and that any curtailments that ESKOM may institute would be part of curtailments that are provided for in the agreement and which would need to be compensated for. To date and since the commencement of lock down the plant has been curtailed for 2 hours and 3 hours over two days respectively and is accordingly in the process of seeking compensation as provided for in the agreement for the curtailments. The matter is however ongoing and the probability of resolution in ESKOM's view is viewed as low at this stage. Furthermore, management continues to assess the impact on the business and the various options available to mitigate the risk.

Based on the above, the lockdown is not expected to have a material adverse impact on the operations of Hulisani nor on the going concern assumption and primarily due the designation of the investments as essential services and also the nature of the long term power purchase agreements with ESKOM and which are government guaranteed. As a result, management believes that the Group has enough liquidity to withstand the impact of Covid19 and will remain a going concern for the foreseeable future the impact on going concern in the foreseeable future and continues to assess the impact on the business and the various options available to mitigate the risk

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4. Financial performance

The operating results and financial position of the group and company are set out in the annual consolidated and separate, statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and accompanying notes.

Overall, the group has delivered a pleasing set of results, notwithstanding the once-off financial assets write-off. Interest income from Legend Power Solutions (Pty) Ltd ("LPS") amounted to R17,4m in the current period from R3m in the prior period, an increase of 480%. This income has been reclassified to revenue in profit or loss in the current year in comparison to finance income in prior year. This growth resulted from increased utilisation of the power plant in response to the demand for electricity during the period. Share of profits from the equity accounted investment grew by 43%, this growth was driven by an improved energy yield in the period due to better operating conditions.

Operating expenses for the period remained largely in line with the prior period even as the group conducted more investment prospects assessments compared to the prior period and incurred some once-off significant costs such as the sponsor fee settlement and litigation settlement. These costs were however off-set by some positive gains that include the reversal of estimated expected credit losses from a loan that was settled in full in the subsequent period. There were no impairments of the investments at the group level.

Key factors that have driven performance for the year under review include the following:

- Revenue
- Operating costs
- Material profit or loss items
- Investment valuations
- Share of profits or losses from associates

Revenue

Revenue of R69.4m (2019: R50.3m) for the period under review is reported, an increase of 38% from the comparative prior period. Revenue at group level consists of sales of electricity at RustMo1 Solar Farm (Pty) Ltd, the subsidiary, and the interest earned in from the convertible loan from Legend Power Solutions (Pty) Ltd ("LPS"). The increase in the group revenue is mainly attributable to the reclassification of interest earned from LPS, from investment income. The reclassification of interest is to best align the disclosure of the income with the management of investment portfolio and strategy of the business.

Operating costs

Operating expenses for the period are R73.6m (2019: R73.3m). Contributing to the expenses in the current year are once off settlements of R8.5m in a litigation matter and R5.2m in sponsorship fees. There were however offsetting gains, including the reversal of the ECLs as a result of the settlement of the Pele loan.

The February 2020 group operating expenses include non-cash items or provisions for depreciation and amortisation of R17.4m (2019: R16m).

Material profit or loss items

Financial assets write-off

	Group	
	2020	2019
	R '000	R '000
Financial assets write-off		
Ignite loans	5,000	-
Ignite preference shares	24,889	-
	29,889	
Less: ECL reversal	(4,152)	-
	25,737	

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In the current year, the group wrote off the investments in Ignite Energy Projects (Pty) Ltd ("Ignite") (refer to notes 6 and 7 for details) as a result of a significant increase in the credit risk following a default on an expected payment during the period and a lack of assets and prospects. Management performed a detailed assessment of the financial status of Ignite, considering the current economic conditions and prospects, and determined that it was prudent to fully write off these assets.

Investment valuations

The valuations process involves an element of judgement and involves estimates. Inputs which were factored in the process includes the discount rates and the projected cashflows from the underlying investments. Valuations for LPS and GRI were conducted to determine the fair value of the investment to enable a fair value gain or loss adjustment in the statement of profit or loss and other comprehensive income. The discount rates that were applied were reflective of prevailing market conditions.

The following adjustments were noted as in the current year:

	Group	
	2020	2019
	R'000	Restated R'000
Convertible loan	4,823	1,643
Derivative – GRI option	3,020	4,404
Fair value gain/(loss) on assets at fair value through profit or loss	7,843	6,047

Fair value gain/(loss)

In the current year under review a fair value gain of R7.8m was recognised in the statement of profit or loss and other comprehensive income. This was driven by increased energy production of the Avon and Dedisa plants (R4.8m), as well as favourable mark-to-market movement in the investment in derivatives (R3m).

Share of profits or losses from associates

The group derives its share of profits or losses from its associate, Kouga, at 6,67%. There was an increase in share of profits from Kouga from R5.3m in the prior year to R7.6m as a result of increased energy yield.

Group performance summary

The following table reflects the operating financial results for the year ended 29 February 2020 compared to the corresponding previous financial period:

	2020	Restated 2019	Variance	Variance
	R'000	R'000	R'000	(%)
Revenue	69,438	50,371	19,067	38
Operating expenses	(73,609)	(73,303)	(306)	(0)
Financial assets write-off	(25,737)	-	(25,737)	(>100)
Finance income	3,807	7,485	(3,678)	(49)
Finance costs	(13,760)	(14,863)	1,103	7
Share of the profit from equity accounted investments	7,608	5,318	2,290	43
Fair value gains	7,843	5,997	1,846	31
Loss before tax	(23,410)	(18,978)	(4,432)	(23)

5. Strategic and operational highlights

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- The Integrated Resource Plan 2019 has been gazetted and the Eskom Roadmap for electricity 2019 has provided certainty in the market and has resulted in a more positive outlook, which we expect to translate to growth opportunities for Hulisani.
- Hulisani maintains a positive outlook on the South African energy sector, notwithstanding uncertainty in the economy and in electricity supply, we believe this presents uncapped growth in the sector.
- We remain committed to our objective of simplifying the business, building up scale and growth over the long term and cost containment.
- We have taken decisive action to focus the business on operational opportunities,
- Strategies to consolidate assets through share for share transactions over the short to medium term are progressing, we believe these will deliver optimal value to existing shareholders.

6. Outlook

In concert with policy certainty in the energy sector, processes and timeframes have also been clarified, such as a turnaround time of 120 days for the granting of qualifying energy generation licences.

The Carbon Tax Act was signed into law during the year under review, which is likely to prompt large power users to pursue the procurement of renewable energy to offset their carbon emissions.

Anticipated NERSA announcements and possible requests for proposals (RFPs) on Eskom's utility scale project are additional factors in our positive outlook. We are also seeing RFPs in the private sector that are dramatically larger than previous RFPs, whereas earlier RFPs were for 2 to 4MW generation, current generation requests are for hundreds of MW. We expect this to continue as renewable energy tariffs are blended with Eskom tariffs with a view to reducing the cost of doing business while achieving price certainty and scalability as the country eases its dependence on one central energy supplier.

The global economic fallout of Covid-19 exposes the need for South Africa to diversify its supply chain by procuring a greater percentage of inputs locally. Local wind farms should not be importing components and wind towers from other countries as GRI produces them locally. It is our view that local content requirements should be increased and must be consistently applied in the rush to add energy to the grid. Industry is ready to partner with government to accelerate things and ramp up local production.

With frameworks and implementation mechanisms firmly in place, we are confident about the outlook for South Africa's energy sector.

7. Directors

The directors in office at the date of this report are as follows:

Directors	Designation	Nationality	Changes
PC Mdoda (Chairman)*	Non-executive Independent	South African	
DR Hlatshwayo*	Non-executive Independent	South African	
AV Notshe#	Non-executive	South African	
HH Schaaf*^	Non-executive Independent	German	
MH Zilimbola#	Non-executive	South African	Resigned 01 March 2020
B Marx*	Non-executive Independent	South African	
KN Kekana*	Non-executive Independent	South African	Appointed 09 March 2020
T Godongwana	Non-executive Independent	South African	Appointed 09 March 2020
ME Raphulu (Chief Executive Officer)	Executive	South African	
MP Dem (Chief Financial Officer)	Executive	South African	

* Independent Non-executive

Non-independent Non-executive

^ German

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Summarised consolidated statement of financial position

		Group		
		2020	2019	01 March 2018
			Restated*	Restated*
	Note(s)	R '000	R '000	R '000
Assets				
Non-Current Assets				
Property, plant and equipment	8	121,462	125,771	133,914
Intangible assets	9	139,099	145,965	152,830
Investment in associate	4	103,337	103,560	122,312
Investment at amortised cost	7	-	19,276	-
Financial asset at fair value through other comprehensive income		-	-	8,961
Loans receivable	6	7,522	10,127	-
Investments at fair value through profit or loss	5	81,609	76,786	75,143
Derivatives	5	70,347	67,327	62,923
		523,376	548,812	556,083
Current Assets				
Trade and other receivables		12,232	22,475	29,140
Cash and cash equivalents		26,923	31,697	35,517
		39,155	54,172	64,657
Total Assets		562,531	602,984	620,740

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Summarised consolidated statement of financial position

		Group		
		2020	2019	01 March 2018
			Restated*	Restated*
	Note(s)	R '000	R '000	R '000
Equity				
Share capital		500,000	500,000	500,000
Reserves		6,562	6,562	7,335
Retained income	16	(151,519)	(122,105)	(95,519)
Equity Attributable to Equity Holders of Parent		355,043	384,457	411,816
Non-controlling interest		25,103	29,078	33,333
		380,146	413,535	445,149
Liabilities				
Non-Current Liabilities				
Borrowings	10	108,862	114,695	125,492
Lease liabilities	11	2,947	-	-
Deferred tax		43,139	39,616	35,814
		154,948	154,311	161,306
Current Liabilities				
Trade and other payables		9,853	15,382	3,722
Borrowings	10	11,743	11,470	10,563
Lease liabilities	11	1,533	-	-
Dividend payable		-	3,247	-
Bank overdraft		4,308	5,039	-
		27,437	35,138	14,285
Total Liabilities		182,385	189,449	175,591
Total Equity and Liabilities		562,531	602,984	620,740

*Refer to note 16 for details on restatements.

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Summarised consolidated statements of profit or loss and other comprehensive income

	Group	Group	
		2020	2019
		R '000	Restated R '000
	Note(s)		
Revenue		69,438	50,371
Other operating income		1,000	17
Other operating gains		7,843	5,997
Other operating expenses		(73,609)	(73,303)
Financial assets write-off	7	(25,737)	-
Operating loss		(21,065)	(16,918)
Investment income		3,807	7,485
Finance costs		(13,760)	(14,863)
Share of the profit from equity accounted investments	4	7,608	5,318
Loss before taxation		(23,410)	(18,978)
Taxation		(3,523)	(3,797)
Loss for the year		(26,933)	(22,775)
Other comprehensive income		-	-
Total comprehensive loss for the year		(26,933)	(22,775)
(Loss)/profit attributable to:			
Owners of the parent		(29,414)	(24,842)
Non-controlling interest		2,481	2,067
		(26,933)	(22,775)
Total comprehensive loss/(profit) attributable to:			
Owners of the parent		(29,414)	(24,842)
Non-controlling interest		2,481	2,067
		(26,933)	(22,775)
Basic and diluted loss per share (c)	14	(59)	(50)

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Summarised consolidated statements of changes in equity

Group	Share capital R '000	Non-distributable reserves R '000	Accumulated losses R '000	Attributable to equity holders of the parent R '000	Non-controlling interest R '000	Total equity R '000
Opening balance as previously reported	500,000	-	(124,618)	375,382	34,625	410,007
Correction of prior period error (note 16)	-	6,562	27,355	33,917	(1,292)	32,625
Balance at March 1, 2018 as restated	500,000	6,562	(97,263)	409,299	33,333	442,632
(Loss)/profit for the year	-	-	(24,842)	(24,842)	2,067	(22,775)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (Loss)/profit for the year (restated)	-	-	(24,842)	(24,842)	2,067	(22,775)
Disposal of a subsidiary	-	-	-	-	272	272
Dividends	-	-	-	-	(6,594)	(6,594)
Balance at February 28, 2019 restated	500,000	6,562	(122,105)	384,457	29,078	413,535
(Loss)/profit for the year	-	-	(29,414)	(29,414)	2,481	(26,933)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (Loss)/profit for the year	-	-	(29,414)	(29,414)	2,481	(26,933)
Dividends	-	-	-	-	(6,456)	(6,456)
Balance at February 29, 2020	500,000	6,562	(151,519)	355,043	25,103	380,146
Note(s)		16	16			

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Summarised consolidated statements of cash flows

		Group	
	Note(s)	2020 R '000	2019 R '000
Cash flows from operating activities			
Cash generated (used in)/from operations		(5,737)	11,044
Net cash from operating activities		(5,737)	11,044
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(1,032)	(1,148)
Sale of property, plant and equipment	6	-	109
Interest received		19,160	4,866
Dividends received		14,746	17,156
Subscription of debt investments at amortised cost		-	(12,500)
Net cash from investing activities		32,874	8,483
Cash flows from financing activities			
Proceeds from borrowings		-	622
Repayment of borrowings	10	(5,560)	(10,512)
Payment on lease liabilities	11	(1,120)	-
Dividends paid		(9,703)	(3,347)
Interest paid		(14,797)	(15,149)
Net cash from financing activities		(31,180)	(28,386)
Total cash movement for the year		(4,043)	(8,859)
Cash at the beginning of the year		26,658	35,517
Total cash at end of the year		22,615	26,658

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Notes to the summarised consolidated annual financial statements

1. Basis for presentation

The summarised consolidated financial statements for the year ended 29 February 2020 have been prepared in accordance with the JSE Limited Listings Requirements ("Listings Requirements") for preliminary reports and the requirements of the Companies Act, Act 71 of 2008. 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 29 February 2020, 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 www.hulisani.co.za. 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 16 Leases (IFRS 16). The new standard provides a comprehensive model to identify lease arrangements and the treatment thereof in the financial statements of both lessees and lessors. 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:

(i) *Investment in an associate 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.

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2. Critical accounting estimates and judgements (continued)

(i) *Estimated fair value of financial assets at fair value through profit or loss.*

Hulisani holds a convertible loan to Legend Power Solutions (Pty) "(LPS)". The group carries the financial asset as the investment at fair value through profit or loss. The fair value is determined by discounting dividend income using the dividend discount method. 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.

(ii) *Impairment of investments in subsidiaries.*

Management identified impairment indicators relating to the investments in Momentous Technologies (Pty) Ltd ("Momentous"), Red Cap Investments (Pty) Ltd ("Red Cap") and Eurocape Renewables (Pty) Ltd ("Eurocape"). The nature of some of the investments acquired by Hulisani is that they are expected to wind down in line with the passage of time in accordance with the Power Purchase Agreements with Eskom. This is mainly driven by the fact that these investments pay dividends which are in excess of the total comprehensive income, in turn returning a portion of capital back to investors. 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 the discount rate.

(iii) *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, using the dividend discount method. In determining the recoverable amount, the group made key assumptions on forecasted revenue and the discount rate.

(iv) *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.

(vi) *Estimated fair value of option*

Hulisani holds 100% of issued shares in Pele SPV13 (Pty) ("Pele SPV13") Ltd. Pele SPV13 holds a 25% interest in GRI Wind Steel South Africa (Pty) Ltd ("GRI"). The investment has previously been classified as an investment in associate. In the current reporting it was identified that an existing written Put Option in the Share Purchase Agreement for the investment in GRI was not considered in accounting for the investment and the Put Option obliges GRI Spain, a co-shareholder in the investment, to acquire all (and not a portion) of Pele SPV13's shares in GRI for an amount equal to the initial purchase price of the investment less any dividends paid to Pele SPV13 (the "Put Option").

Management has reassessed the accounting treatment of the Put Option and concluded that in substance Pele SPV13 effectively prepaid the strike price for a call option to acquire an equity stake in GRI. The option is accounted for as a derivative financial asset with gains and losses recognised through profit or loss. Refer to note 16 for details.

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2. Critical accounting estimates and judgements (continued)

(vii) Adoption of IFRS 16

Management has had to make a judgement when determining the lease term, by considering all facts and circumstance that create an economic value on the decision on whether the group will exercise an option to extend the leases. It was decided that extension option should not be included in the lease liability, because the group could replace the assets without significant cost or business disruption.

(viii) The impact of COVID-19

Management assessed the impact of COVID-19 to be a post balance sheet event which does not necessitate material adjustments in the financial period the group is reporting on. This is on the basis that the first case in South African was reported in March 2020, followed by the announcement of the lockdown by President Cyril Ramaphosa. Management does not expect lockdown to have a material adverse impact on the operations of Hulisani nor on the going concern assumption. Management believes that the group has enough liquidity to withstand the impact of COVID-19 and will remain a going concern for the foreseeable future. Refer to note 17 for further details on the impact of COVID-19.

(ix) Deferred tax assets

Deferred tax assets are raised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Assessment of future taxable profit is performed at every reporting date.

3. Change in accounting policies

This section explains the impact of the adoption of the new accounting standard on Hulisani and group's financial statements, as issued by IASB, which was effective for the group from 01 March 2019:

- IFRS 16 *Leases* (IFRS 16).

Implementation of IFRS 16 Leases

In the current year, the group has adopted IFRS 16 Leases (as issued by the IASB in January 2016) with the date of initial application being March 1, 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC 27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The impact of the adoption of IFRS 16 on the group's financial statements is described below.

The group has applied the practical expedient available in IFRS 16 which provides that for contracts which exist at the initial application date, an entity is not required to reassess whether they contain a lease. This means that the practical expedient allows an entity to apply IFRS 16 to contracts identified by IAS 17 and IFRIC 4 as containing leases; and to not apply IFRS 16 to contracts that were not previously identified by IAS 17 and IFRIC 4 as containing leases.

IFRS 16 has been adopted by applying the modified retrospective approach, whereby the comparative figures are not restated. Instead, cumulative adjustments to retained earnings have been recognised in retained earnings as at March 1, 2019.

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3. Change in accounting policies (continued)

Leases where group is lessee

Leases previously classified as operating leases

The group undertook the following at the date of initial application for leases which were previously recognised as operating leases:

- recognised a lease liability, measured at the present value of the remaining lease payments, discounted at the group's incremental borrowing rate at the date of initial application
- recognised right-of-use assets measured on a lease by lease basis, at an amount equal to the lease liability adjusted for the rental smoothing liability previously recognised under IAS17.

The group relied on previous assessments on whether leases are onerous as an alternative to applying IAS 36 to consider if these right-of-use assets are impaired as at the date of initial application.

The group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases in terms of IAS 17. Where necessary, they have been applied on a lease by lease basis:

- leases which were expiring within 12 months of March 1, 2019 were treated as short term leases, with remaining lease payments recognised as an expense on a straight-line basis.
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the fixed lease payments, including in-substance fixed payments.

The lease liability is presented as a separate line item on the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs.

Right-of-use assets

Right-of-use assets are presented as part of property, plant and equipment in the statement of financial position, details are included in note 8.

Lease payments included in the measurement of the right-of-use asset comprise the following:

- the initial amount of the corresponding lease liability.
- any lease payments made at or before the commencement date.
- any initial direct costs incurred.
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the group incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

The residual value, lease term and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

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3. Change in accounting policies (continued)

The depreciation charge for each year is recognised in profit or loss.

Impact on financial statements

On transition to IFRS 16, the group recognised an additional R3.4m of right-of-use of property and R3.8m of lease liabilities.

When measuring lease liabilities, group discounted lease payments using its incremental borrowing rate at March 1, 2019. The rate applied is 13%.

	Group 2020 R'000
Reconciliation of previous operating lease commitments to lease liabilities under IFRS 16	
Operating lease commitments disclosed as at 28 February 2019	5,293
- Within one year	1,630
- Later than one year but not later than 5 years	3,663
Present value of operating leases at 28 February 2019	3,810
Less: Short -term leases	-
Lease liability recognised as at 1 March 2019 (previous operating lease)	3,810
Of which are:	
Current lease liabilities	1,418
Non-current lease liabilities	2,392
Total lease liabilities	3,810
Represented by	
Right-of-use assets – Property, plant and equipment	3,447
Total right-of-use assets	3,447

Group

	28 February 2019	IFRS 16	01 March 2019
	R'000	R'000	Restated R'000
Balance sheet (Extract)			
Property, plant and equipment	-	3,447	3,447 ¹
Total assets	-	3,447	3,447
Trade and other payables	363	(363)	-
Current lease liability	-	1,418	1,418
Non-current lease liabilities	-	2,392	2,392
Total liabilities	363	3,447	3,810

¹ The right-of-use asset has been adjusted for R363k straight lining lease liability raised in the previous year.

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3. Change in accounting policies (continued)

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.

	28 February 2019	IFRS 16	01 March 2019
			Restated
Balance sheet (Extract)	R'000	R'000	R'000
Assets			
Property, plant and equipment	-	4,423	4,423
Total assets	-	4,423	4,423
Equity and Liabilities			
Equity			
Retained earnings	(363)	363 ¹	-
Liabilities			
Trade and other payables	363	(363)	-
Lease liability	-	4,423	4,423
Total equity and liability	-	4,423	4,423

¹ This consists of reversal of operating lease smoothing impact.

4. Investment in associates

Kouga Wind Farm (Pty) Ltd

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%. Red Cap and Eurocape are investment holding companies.

	Group	
	2020	2019
		Restated
	R'000	R'000
Balance at the beginning of the period	103,560	122,312
Profit attributable to Hulisani Limited	7,608	5,318
Dividends received	(7,831)	(24,070)
Balance at the end of the period	103,337	103,560

(i) Identifiable assets

The group conducted a fair value assessment on acquisition of the associate and recognised customer contracts of R88m (included within the carrying value of the investment). The contract is a 20-year Power Purchase Agreement ("PPA") between Kouga and Eskom, which is the agreement regulating the supply of electricity by Kouga to Eskom. The customer contract is subsequently amortised on a straight-line basis over the remaining term of the PPA to match the cash flows of the contract.

(ii) Impairment

Management identified impairment indicators in Kouga due to the production being less than originally budgeted for. An impairment assessment was performed, and it was determined that no impairment loss adjustment was required.

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4. Investment in associates (continued)

A recoverable amount of the investment was determined through the dividend discount valuation model, by reference to the operations' value in use. The valuation process determined the recoverable amount of R110m to be higher than the carrying value of the investments, and there was no requirement to impair the assets.

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

- Discount rate – 13.5%
- Base revenue - Base revenue (year 1 revenue cash flow forecast in the model) is determined using current year energy rate inflated at CPI in line with the terms of the Power Purchase Agreement. The base revenue in the cash flow projections is R517 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 and subsequent revenue projections results in a decrease in the recoverable amount, and impairment of R9m;
- If all assumptions remained unchanged, a 1% increase in discount rate results in a decrease in the recoverable amount, and impairment of R7m.

As explained in more detail in note 17, the provision of power has been designated as an essential service and as result the impact of COVID-19 on cash flow projection utilised in the valuation of Hulisani's investment is limited. The sensitives above illustrate the impact of changes in discount rate which are likely to be impacted by changes in macroeconomic indicators and the macro economy in general.

5. Financial assets and at fair value through profit and loss

	Group	
	2020	2019
	R '000	Restated R '000
Financial assets at fair value through profit and loss:		
Convertible loan	81,609	76,786
Derivative assets – GRI Option	70,347	67,327
	151,956	144,113

(i) Convertible loan to Legend Power Solution (Pty) Ltd

Hulisani Limited holds 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. The investment is carried as a financial asset at fair value through profit or loss.

(ii) GRI Option

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"). Pele SPV13 (Pty) Ltd ("Pele SPV13") entered into an agreement (the "Share Purchase Agreement") to acquire 25% shareholding in GRI Wind Steel South Africa (Pty) Ltd ("GRI") from GRI Renewables Industries, SL for an amount of R82,5 million (the "Purchase Price"). In legal form Pele SPV13 is owned in equal proportions by Hulisani and Pele198 (RF) (Pty) Ltd ("Pele SPV198") and in substance is owned 100% by Hulisani.

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5. Financial assets and at fair value through profit and loss (continued)

In terms of the Share Purchase Agreement, on the fifth anniversary of the acquisition of the investment, Pele SPV13 (by extension Hulisani) has an option in terms of which it may oblige GRI Renewable Industry, S.L., the co-shareholder and majority shareholder in GRI, to acquire all (and not a portion) of Hulisani's shares in GRI for an amount equal to the purchase price of R82,5m less any dividends paid to Pele SPV13 (the "Put Option"). The option provides downside protection of value of the investment as Hulisani is able to receive the invested amount in full at the end of the agreed period. Dividends received from GRI are applied against the purchase price if the put option is exercised, meaning that Hulisani will not benefit from returns on the investment, and as a result Hulisani does not have upside potential in the value of the investment if the put option is exercised.

Based on the above the conclusion is that the risks and rewards associated with the current ownership interest in GRI have not transferred to Hulisani. The substance of the transaction is that Hulisani has prepaid its strike price for an option to acquire 25% ownership interest in GRI in the future for a fixed price. This instrument therefore meets the definition of a derivative within the scope of IFRS 9.

Refer to Note 13 for further information on valuation inputs.

6. Loan 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

In the prior period Hulisani had a receivable to the value of R5m from Ignite Energy Projects (Pty) Ltd ("Ignite"), the loan did not earn interest and has no repayment terms. In the year under review the loan has been written off due to a significant deterioration in the credit risk of Ignite. Hulisani assessed the financial standing of Ignite, in the context of current economic climate and concluded that it is prudent to write-off the loan as there are no prospects of recoverability.

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

	Group	
	2020	2019
	R '000	R '000
Pele Green Energy (Pty) Ltd	7,522	5,877
Ignite Energy Projects (Pty) Ltd	-	4,250
	7,522	10,127

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6. Loan receivables (continued)

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:

2020

Instrument	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
		R'000	R'000	R'000
Pele Green Energy (Pty) Ltd	12m ECL	7,522	-	7,522 ¹
		7,522	-	7,522

2019

Instrument	Basis of loss allowance	Gross Carrying amount	Loss allowance	Amortised cost
		R'000	R'000	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

¹ The loan to Pele Green (Pty) Ltd has since been repaid in full as at 31 March 2020.

7. Investment at amortised cost

Preference shares to Ignite Energy Projects (Pty) Ltd

Hulisani Limited invested in preference share issued by Ignite Energy Projects (Pty) Ltd ("Ignite") with a subscription value of R21.7m. The preference shares are redeemable in 5 years, and the interest rate is set at prime plus 2.35%.

The preference shares have been written off due a significant deterioration in the credit risk of Ignite. Hulisani assessed the financial standing of Ignite, in the context of current economic climate and concluded that it is prudent to write-off the investment as there are no prospects of recoverability.

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

	Group	
	2020	2019
	R '000	R '000
Energy Projects (Pty) Ltd	-	19,276
	-	19,276

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8. Property, plant and equipment

Group	2020			2019		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Land	1,226	-	1,226	1,226	-	1,226
Building	986	(310)	676	986	(261)	725
Plant and machinery	136,271	(23,075)	113,196	135,496	(14,570)	120,926
Furniture and fixtures	3,028	(1,281)	1,747	2,810	(854)	1,956
Right-of-use assets: Building	5,237	(1,328)	3,909	-	-	-
Motor vehicles	595	(159)	436	595	(40)	555
Office equipment	385	(188)	197	375	(123)	252
IT equipment and software	359	(284)	75	330	(199)	131
Total	148,087	(26,625)	121,462	141,818	(16,047)	125,771

Reconciliation of property, plant and equipment - Group - 2020

	Opening balance R'000	Additions R'000	Depreciation R'000	Total R'000
Land	1,226	-	-	1,226
Building	725	-	(49)	676
Plant and machinery	120,926	775	(8,505)	113,196
Furniture and fixtures	1,956	218	(427)	1,747
Right-of-use assets: Building	-	5,237 ¹	(1,328)	3,909
Motor vehicles	555	-	(119)	436
Office equipment	252	10	(65)	197
IT equipment	131	29	(85)	75
	125,771	6,269	(10,578)	121,462

¹ The right of use assets consists of R3.4m which arose due to the first-time adoption of IFRS16, and R1.8m in new leases entered into during the financial period.

Reconciliation of property, plant and equipment - Group - 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Total R'000
Land	1,226	-	-	-	1,226
Building	774	-	-	(49)	725
Plant and machinery	128,881	471	-	(8,426)	120,926
Furniture and fixtures	2,349	27	-	(420)	1,956
Motor vehicles	192	595	(139)	(93)	555
Office equipment	312	3	-	(63)	252
IT equipment	180	52	-	(101)	131
	133,914	1,148	(139)	(9,152)	125,771

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8. Property, plant and equipment (continued)

Property, plant and equipment encumbered as security

The following assets have been encumbered as security for the secured long-term borrowings (refer to note 10):

	Group	
	2020 R'000	2019 R'000
Property, plant and equipment:		
- Land	1,226	1,226
- Building	676	725
- Plant and machinery	113,195	120,925
- Other assets	2,126	620
Total non-current assets pledged as security	117,223	123,496
Total assets pledged as security	117,223	123,496

A register containing the information required by regulation 25(3) of the Companies Regulations is available for inspection at the registered office of the company.

9. Intangible assets

Group	2020			2019		
	Cost R'000	Accumulated amortisation R'000	Carrying value R'000	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
Goodwill	44,761	-	44,761	44,761	-	44,761
Customer contract	113,218	(18,880)	94,338	113,218	(12,014)	101,204 ¹
Total	157,979	(18,880)	139,099	157,979	(12,014)	145,965

Reconciliation of intangible assets - Group – 2020

	Opening balance R'000	Amortisation R'000	Total R'000
Goodwill	44,761	-	44,761
Customer contract	101,204	(6,866)	94,338 ¹
	145,965	(6,866)	139,099

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9. Intangible assets (continued)

Reconciliation of intangible assets - Group - 2019

	Opening balance	Amortisation	Total
	R'000	R'000	R'000
Goodwill	44,761	-	44,761
Customer contract	108,069	(6,865)	101,204
	152,830	(6,865)	145,965

¹ Development costs have been combined with customer contracts due to the interrelated nature of these intangibles. The purchase price allocation was performed on acquisition of RustMo1. The customer contract that has been recognised relates to the Power Purchase Agreement with Eskom. This is amortised over the remaining period of the agreement and the remaining useful lives of intangible assets at 29 February 2020 is 16.5 years.

Impairment of goodwill

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.

In accordance with the requirements of IAS 36 'Impairment of Assets', goodwill is tested annually for impairment for each Cash Generating Unit (CGU), by comparing the carrying amount of each CGU to its recoverable amount, being the higher of that CGU's value in use or fair value less costs to sell. The appropriateness of the CGUs is evaluated on an annual basis. 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	Total
	R'000	R'000
Goodwill	44,761	44,761
	44,761	44,761

In the performance of goodwill impairment testing, the group used the value in use calculation to determine the recoverable amount, by using dividend discount model, which incorporated dividends projections from financial model approved by senior management covering the remaining period of the Power Purchase Agreement ("PPA") and a risk-adjusted discounted rate reflecting cost of equity.

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

- Discount rate – 13.1%
- Base revenue - Base revenue (year 1 revenue cash flow forecast in the model) is determined using current year energy rate inflated at CPI in line with the terms of the Power Purchase Agreement. The base revenue in the cash flow projections is R54 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 and subsequent revenue projections results in a decrease in the recoverable amount, and further impairment of R7m;
- If all assumptions remained unchanged, a 1% increase in discount rate results in a decrease in the recoverable amount, and further impairment of R6m.

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10. Borrowings

	Group	
	2020	2019
	R '000	Restated R '000
Held at amortised cost		
Secured		
Nedbank loan	60,152	62,635
IDC loan	60,453	62,908
Unsecured		
Lead Africa Capital loan	-	622
	120,605	126,165
Split between non-current and current portions		
Non-current liabilities	108,862	114,695
Current liabilities	11,743	11,470
	120,605	126,165
	Group	
	2020	2019
	R'000	Restated R'000
Balance at the beginning of the period	126,165	136,055
Advancements	-	622
Repayments	(5,560)	(10,512)
	120,605	126,165

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 loan

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

(i) Assets pledged as security

See note 8 for all assets pledged as security

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11. Lease liabilities

	Group
	2020
	R'000
Minimum lease payment due	
- Within one year	1,960
- Later than one year but no later than 5 years	3,050
- Later than 5 years	247
	5,257
Less: Future finance charges	(777)
Present value of minimum lease payments	4,480
Present value of minimum lease payments due:	
- Within one year	1,533
- Later than one year but no later than 5 years	2,705
- Later than 5 years	242
	4,480
Non-current liabilities	2,947
Current liabilities	1,533
	4,480
	Group
	2020
	R'000
Balance at the beginning of the period	-
Recognised on first time adoption of IFR16	3,810
Addition	1,790
Interest	507
Repayments	(1,627)
- Capital	(1,120)
- Interest	(507)
	4,480

The group entered into leases for office space for the holding company and subsidiaries. Rental contracts are made for fixed periods, with remaining lease term of between 2 - 4.5 years. Contracts may contain both lease and non-lease components, however the group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions, and current lease agreements do not impose any covenants.

The effective borrowing rates are 10% and 13%, respectively. To determine the borrowing rate, the group uses recent third-party financing received by the individual lessee. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period and capitalised on the remaining balance of the liability for each period.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment.

Extension options in offices leases have not been included in the lease liability, because the group could replace the assets without significant cost or business disruption.

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12. Segmental information

2020

Revenue	Separately disclosable items						
	Revenue	Net profit	Non-cash items in comprehensive income	Depreciation and amortisation	Interest income	Finance cost	Dividends received
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
RustMo1	52,032	11,916	-	(15,742)	1,437	(13,327)	6,351
Kouga	-	7,608	-	-	-	-	7,831
GRI	-	3,020	3,020	-	-	-	-
LPS	17,406	22,229	4,823	-	-	-	-
Other/Eliminations	-	(71,706)	(23,941)	(1,701)	2,370	(433)	-
	69,438	(26,933)	(16,098)	(17,443)	3,087	(13,760)	14,182

2019 – Restated

Revenue	Separately disclosable items						
	Revenue	Net profit	Non-cash items in comprehensive income	Depreciation and amortisation	Interest income	Finance cost	Dividends received
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
RustMo1	50,371	11,119	(19)	(15,448)	1,497	(14,759)	12,800
Kouga	-	5,318	-	-	-	-	24,070
GRI	-	4,404	4,404	-	-	-	-
LPS	-	4,730	1,643	-	3,087	-	-
Other/Eliminations	-	(48,346)	(31)	(569)	2,901	(105)	-
	50,371	(22,775)	5,997	(16,017)	7,485	(14,864)	36,870

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12. Segmental information (continued)

Segment assets and liabilities

2020

	Equity accounted investments	Property, plant and equipment	Financial assets at fair value	Financial assets at amortised cost	Intangible assets	Current assets	Total liabilities
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
RustMo1	-	117,223	-	-	139,099	32,242	167,277
Kouga	103,337	-	-	-	-	-	-
GRI	-	-	70,347	-	-	-	-
LPS	-	-	81,609	-	-	-	-
Other/Eliminations	-	4,239	-	7,522	-	6,913	15,107
Total	103,337	121,462	151,956	7,522	139,099	39,155	182,384

2019 - Restated

	Equity accounted investments	Property, plant and equipment	Financial assets at fair value	Financial assets at amortised cost	Intangible assets	Current assets	Total liabilities
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
RustMo1	-	123,496	-	-	145,965	41,805	179,079
Kouga	103,560	-	-	-	-	-	-
GRI	-	-	67,326	-	-	-	-
LPS	-	-	76,786	-	-	-	-
Other/Eliminations	-	2,275	-	29,403	-	12,367	10,390
Total	103,560	125,771	144,112	29,403	145,965	54,172	189,449

13. Fair value information

Fair value hierarchy

The table below analyses assets carried at fair value. The different levels are

Level 1: Quoted unadjusted prices in active markets for identical assets that the group can access at measurement date. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset either directly or indirectly. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: Unobservable inputs for the asset. This is the case for unlisted equity securities.

Levels of fair value measurements

The following presents the group's financial instruments measured and recognised at fair value at 29 February 2020. The group has classified its financial instruments into the three levels prescribed under the accounting standards.

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13. Fair value information (continued)

Level 3

	Group	
	2020	2019
	R '000	Restated R '000
Recurring fair value measurements		
Assets		
Financial assets at fair value through profit (loss)		
Convertible loan	81,609	76,786
Derivative – GRI option	70,347	67,321
Total	151,956	144,107

Transfers of assets 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 measured at level 3

	Notes	Opening balance R'000	Fair value adjustment in profit/(loss) R'000	Closing balance R'000
Group – 2020				
Assets				
Financial assets at fair value through profit (loss)				
Convertible loan	10	76,786	4,823	81,609
Derivative – GRI option	13	67,327	3,020	70,347
Total		144,113	7,843	151,956

	Notes	Opening balance R'000	Fair value adjustment in profit/(loss) R'000	Closing balance R'000
Group – 2019 restated				
Assets				
Financial assets at fair value through profit (loss)				
Convertible loan	10	75,143	1,643	76,786
Derivative – GRI option	13	62,923	4,404	67,327
Total		138,066	6,047	144,113

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Notes to the summarised consolidated annual financial statements

13. Fair value information (continued)

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

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

Description	Fair value at 29 February 2020 R'000	Fair value at 28 February 2019 R'000	Unobservable inputs	Actual inputs	Relationship of unobservable inputs to fair value
Convertible loan	81,609	76,786	Discount rate	13.9%	An increase in discount rates results in a reduction in fair value.
			Base revenue from plant operation	R3 billion	A decrease in base revenue results in a reduction in fair value.
			Remaining period of operation	25 years	A reduction in the period of operation results in a reduction in fair value.
			Average plant utilisation rate	2.4%	A decrease in utilisation rate results in a reduction in fair value.
Derivative – GRI option	70,347	67,326	Spot price	Rnil	An increase in the spot price will result in a reduction in fair value of the put option.
			Interest rate	6.6%	An increase in interest rate will result in a reduction in fair value of the put option.
			Time to maturity	2 years	Shorter time to maturity increases the value of the put option.
			Volatility	38.06%	High volatility increases the value of the put option.

(a) Convertible loan

The fair value is determined by discounting dividend income using the dividend discount method. 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 power plants.

The key inputs to the discounted cash flow model of the underlying operational plants are as follows:

- Discount rate – 13.9%
- Base revenue from plant operation – Base revenue (year 1 revenue cash flow forecast in the model) 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 is R3 billion.
- Remaining period of operation - 25 years
- Average plant utilisation rate – 2.4%

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 and subsequent revenue projections results in a reduction in fair value of R18m;
- If all assumptions remained unchanged, a 1% increase in discount rate results in a reduction in fair value of R7m.
- If all assumptions remained unchanged, a 5 year reduction in the period of operation results in a reduction in fair value of R6m.
- If all assumptions remained unchanged, a 1% reduction in the average utilisation rate results in a reduction in fair value of R3m.

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13. Fair value information (continued)

(b) Derivative – GRI option

The valuation technique used to value the option is the Binomial option pricing model.

The key inputs are as follows:

1. Spot price - Rnil
2. Interest rate – 6.6%
3. Time to maturity – 2 years
4. Volatility – 38.06%

The model is most sensitive to changes in interest rate.

- If all assumptions remained unchanged, a 1% increase in interest rates results in a reduction in fair value of R1.8m.

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).

Specific valuation techniques used to value financial instruments include:

- 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 options use the Binomial option pricing models.

The group conducts valuations twice a year, at the interim financial reporting period and also at the year-end reporting period.

14. Earnings per share

Reconciliation between earnings and headline earnings is as follows:

	Group	
	2020	2019
		Restated
	R '000	R '000
Basic and diluted loss per share (cents)	(59)	(50)
Basic and diluted headline loss per share (cents)	(59)	(50)

The calculation of earnings per share for the year ended 29 February 2020 was based on the loss attributable to ordinary shareholders of Hulisani Limited, and a weighted average number of ordinary shares.

	Group	
	2020	2019
	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	(29,414)	(24,842)
Adjustments:		
Effects of remeasurements for subsidiaries, net of NCI and tax:	-	14
Impairment loss	-	-
Loss on sale of property, plant and equipment	-	20
Tax effect	-	(6)
Headline earnings	(29,414)	(24,828)
Weighted average number of ordinary shares ('000)	50,000	50,000

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15. Related parties

Entity	Relationships
GraysMaker Advisory (Pty) Ltd	GraysMaker Advisory (Pty) Ltd a shareholder of Umhlaba Lease Co. (Pty) Ltd, a subsidiary of Hulisani. Also, the managing director of Umhlaba is the sole shareholder of GraysMaker Advisory (Pty) Ltd.
Momentous Operation Services (Pty) Ltd Momentous Solar Farm (RF) (Pty) Ltd Placeweath (Pty) Ltd	Shareholders of these entities are directors of RustMo1 Solar Farm (RF) (Pty) Ltd
AV Notshe DP Hlatshwayo PC Mdoda HH Schaaf B Marx ME Raphulu MP Dem	Members of key management
Nibira (Pty) Ltd	The founding members, who are also the directors of Hulisani, are the directors of Nibira (Pty) Ltd
Kouga Wind Farm (Pty) Ltd (refer to note 4)	Associate

Related party balances

	Group	
	2020	2019
	R '000	R '000
Trade receivables (a)	650	650
Loans receivable (a)	7,522	6,679
Other receivables (b)	-	5,201
Lease liability (c)	1,665	-

- 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. Trade receivables and loans receivables are due from Pele Green Energy (Pty) Ltd, a parent company to Pele SPV198 (Pty) Ltd.
- Sponsor fees refundable to Hulisani by Nibira (Pty) Ltd. A settlement was reached between Hulisani and Nibira and the amount is no longer due and refundable to Hulisani
- RustMo1 currently leases office space from Placeweath (Pty) Ltd, a company owned by RustMo1's CEO.

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15. Related parties (continued)

Related party transactions

	Group	
	2020	2019
	R '000	R '000
Consulting fees (a)	1,550	2,467
Dividends (b)	-	3,297
Management fees (c)	-	2,458
Dividends received (d)	7,831	24,070
Sponsor fees (e)	5,201	-

- a) Umhlaba Land Lease Co. (Pty) Ltd used the consulting services of GraysMaker Advisory (Pty).
- 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.
- d) Dividends received from Kouga, the associate.
- e) Sponsor fees were paid by Hulisani to Nibira (Pty) Ltd, after a settlement was reached.

Compensation to executive directors and key management

	Group	
	2020	2019
	R '000	R '000
Short-term employee benefits	5,559	7,737
	5,559	7,737

16. Correction of error

Group level

(i) GRI Wind Steel South Africa (Pty) Ltd

GRI option

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.

In the current period it was identified that an existing written Put Option in the Share Purchase Agreement for the investment in GRI was not considered in the accounting for the investment. The Put Option on the GRI transaction provides downside protection on the investment.

The accounting treatment of the investment in GRI was accordingly reassessed and the initial accounting treatment of GRI as 'an equity investment in associate' required correction. Management has concluded that the substance of the transaction is that Hulisani, through Pele SPV13, has prepaid a strike price of R82.5m, for an option to acquire a 25% ownership interest in GRI for a fixed price. The equity investment in GRI has therefore been derecognised and a derivative financial asset ("GRI Option") has been recognised. The derivative financial asset is held at fair value with gains and losses relating to the fair value measurement recognised through profit or loss.

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16. Correction of error (continued)

Pele SPV198 option

As highlighted above, Hulisani subscribed for preference shares of R41.25m Pele SPV198 and 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 with Pele SPV198 investment in Pele SPV13 have transferred to Hulisani and Pele SPV198 effectively has an option to acquire the 50% interest in Pele SPV13 once the preference share funding has been repaid. In the prior reporting periods, the Call Option had been determined to have an immaterial value. The restatement of the investment in GRI however necessitated the valuation of the existing call option with Pele SPV198 to be revisited and adjusted accordingly.

The option is equity-settled at group level

(ii) Borrowings

In a previous period, the group incorrectly not accrued for finance cost to the value of R3.8m, as a result the finance costs were under accrued for. The correction has been made to opening retained earnings at 01 March 2018.

	28 February 2018	Increase/ (Decrease)	01 March Restated 2018	28 February 2019	Increase/ (Decrease)	28 February Restated 2019
	R'000	R'000	R'000	R'000	R'000	R'000
Statement of Financial Position (extract)						
Derivatives – GRI option (i)	-	62,923	62,923	-	67,327	67,327
Investments in associates (ii)	148,810	(26,498)	122,312	118,829	(15,269)	103,560
Total assets	584,315	36,425	620,740	550,926	52,058	602,984
Accumulated loss	122,874	(27,355)	95,519	165,093	(42,988)	122,105
Non-controlling interest (ii)	(34,625)	1,292	(33,333)	(30,370)	1,292	(29,078)
Non-distributable reserve (i)	(773)	(6,562)	(7,335)	-	(6,562)	(6,562)
Borrowings – non-current (ii)	(121,692)	(3,800)	(125,492)	(110,895)	(3,800)	(114,695)
Total liabilities and equity	(584,315)	(36,425)	(620,740)	(550,926)	(52,057)	(602,984)

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16. Correction of error (continued)

	Group		
	28 February 2019	Increase/ (Decrease)	28 February Restated 2019
	R'000	R'000	R'000
Statement of profit or loss and comprehensive income(extract)			
Operating gains /(losses)	1,593	4,404	5,997
Impairment loss	-	-	-
Operating profit	(21,322)	4,404	(16,918)
Share of the loss from equity accounted investments	(5,911)	11,229	5,318
Loss before tax	(34,611)	15,633	(18,978)
Taxation	(3,797)	-	(3,797)
Loss for the year	(38,408)	15,633	(22,775)
Loss for the year attributable to:			
Owners of the parent	(40,475)	15,633	(24,842)
Non-controlling interest	2,067	-	2,067
	(38,408)	15,633	(22,775)
Total comprehensive loss for the year attributable to:			
Owners of the parent	(40,475)	15,633	(24,842)
Non-controlling interest	2,067	-	2,067
	(38,408)	15,633	(22,775)

Basic and diluted loss per share and headline loss per share for the prior periods have also been restated.

The amount of the correction for both basic loss per share and headline loss per share was adjusted for the group as follows:

01 March 2018	Basic and diluted loss per share	Basic and diluted headline loss per share
Group	Cents	Cents
GRI option	73	(19)
Pele SPV198 option	(13)	(13)
Borrowings	(5)	(5)
Total decrease/(increase) in loss	55	(37)

28 February 2019	Basic and diluted loss per share	Basic and diluted headline loss per share
Group	Cents	Cents
GRI option	31	31
Pele SPV198 option	-	-
Total decrease/(increase) in loss	31	31

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17. Events after the reporting period

(i) *The impact of COVID-19*

President Cyril Ramaphosa announced a countrywide lockdown following the declaration of COVID-19 as a pandemic by the World Health Organisation, and in response to the threat posed by the virus. The pandemic continues to impact all aspects of global society with serious ramifications for the global economy. Hulisani's investments have outlined their business continuity plans to ensure that operations are not interrupted during the lockdown as the provision of power has been declared an essential service in South Africa. As an investor in assets in the Renewable Energy sector Hulisani's investments provide energy to the national utility ESKOM on the back of long term, government backed power purchase agreements, and which also cater for conditions of low electricity demand. Management assessed the impact of COVID-19 to be a post balance sheet event which does not necessitate adjustments in the financial period on which the group is reporting on.

Notwithstanding the designation of Hulisani's investments as essential services, one of the investments, Kouga Wind Farm, received correspondence from the national utility of their intention to declare the lockdown a *force majeure*, which would absolve ESKOM from its obligation to procure power from the power plant during the lockdown period. Kouga has sought legal advice and indications are that the lockdown does not constitute a *force majeure* as defined in the Power Purchase Agreement with ESKOM and that any curtailments that ESKOM may institute would be part of curtailments that are provided for in the agreement and which would need to be compensated for. To date and since the commencement of lock down the plant has been curtailed for 2 hours and 3 hours over two days respectively and is accordingly in the process of seeking compensation as provided for in the agreement for the curtailments. The matter is however ongoing and the probability of resolution in ESKOM's view is viewed as low at this stage. Furthermore, management continues to assess the impact on the business and the various options available to mitigate the risk.

Based on the above, the lockdown is not expected to have a material adverse impact on the operations of Hulisani nor on the going concern assumption and primarily due the designation of the investments as essential services and also the nature of the long term power purchase agreements with ESKOM and which are government guaranteed. As a result, management believes that the Group has enough liquidity to withstand the impact of COVID-19 and will remain a going concern for the foreseeable future.

(ii) *Share-based payments*

The remuneration committee decided to reward Hulisani management for their contribution to the performance of the group by granting them share appreciation rights ("SARs"). The rights entitle the employees to an equity payment after 2 years of service, as well as meeting certain performance conditions.

The amount payable will be determined based on the increase of Hulisani share price between the grant date (17 March 2020) and the vesting date. The rights must be exercised on vesting date and will expire if not exercised on that date.

18. Dividends

There are no dividends declared for the period.

19. Going concern

The summarised consolidated results for the year ended 29 February 2020 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 realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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

Auditors
PricewaterhouseCoopers Inc.

Sponsor
PSG Capital

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

Company secretary
Resolve secretarial services (Pty) Ltd, 77 Vasco Boulevard, Goodwood, 7460

Directors:
ME Raphulu (Chief Executive Officer), MP Dem (Chief Financial Officer), PC Mdoda* (Chairman), A Notshe^, DR Hlatshwayo*, HH Schaaf*#, B Marx*, KN Kekana*, T Godongwana*.

* Independent Non-executive # German ^ Non-independent Non-executive.