STELLAR CAPITAL PARTNERS

# PROVISIONAL CONDENSED FINANCIAL RESULTS

FOR THE YEAR ENDED 30 JUNE

# 2019

STELLAR
CAPITAL PARTNERS

# STELLAR CAPITAL PARTNERS LIMITED

Incorporated in the Republic of South Africa

(Registration number 1998/015580/06)

Share code: SCP

ISIN: ZAE000198586

# INTRODUCTION

## INTRODUCTION

Stellar Capital Partners Limited ("Stellar", the "Company" or the "Group") presents its provisional results for the year ended 30 June 2019.

## SUMMARY: YEAR ENDED 30 JUNE 2019

- Net asset value per share ("NAVPS") at 30 June 2019, up 15% year on year to R1.21
- Disposal of Amecor for R416.6 million
- Disposal of Torre for R410.8 million (including capital distribution)
- Redemption and cancellation of the R600 million preference shares
- Reduction in Stellar's economic interest in Prescient (to 19.4%) to enable the conclusion of a black controlled empowerment deal
- Equity injection of R120 million into AHI Asset Management to support an alternative asset management strategy

## COMMENTARY

### PRESCIENT

The Prescient group is now black controlled following the conclusion of the transactions which included the repurchase of half of its shares held by Stellar and the issue of shares to Prescient Empowerment Trust Proprietary Limited ("PET") and the incoming B-BBEE partner, Sithega Financial Services Fund. The remaining Prescient shares held by Stellar were exchanged for preference shares of the same value in PET (56% shareholder of Prescient) which give Stellar the rights and economic benefits attributable to an effective 19.4% interest in Prescient.

Assets under management have grown to R93.1 billion at 30 June 2019 (R86.4 billion at 30 June 2018) and assets under administration have grown to R443.9 billion at 30 June 2019 (R377.9 billion at 30 June 2018) In addition, Prescient continues to expand and grow its stockbroking, wealth management business as well as its international businesses in the Britain, Ireland and China.

### PRAXIS FINANCIAL SERVICES

Since the capital restructuring in March 2018, the business has improved its profitability and concluded the development of a technology platform to enable scalability (which is nearing the completion of the testing phase with key customers). Praxis continues to engage with various funders to provide additional and more cost-effective sources of capital for further balance sheet growth.

The working capital cycle of the business remains a key focus area and improvements in this regard are beginning to translate into increased profitability despite the high cost of current debt funding.

### GREENPOINT

Greenpoint Capital, the manager of the various Greenpoint Funds, has delivered on its goal of expanding its offering of alternative credit solutions and has outperformed its budget for the financial year ending 30 June 2019. The growth of the underlying credit portfolios remains a key focus area for management.

Greenpoint Specialised Lending ("GSL") Fund focuses on the traditional mezzanine funding in the South Africa mid-market space. Stellar remains a key investor of the fund with R108.1 million indirectly held at 30 June 2019 via AHI Asset Management.

# INTRODUCTION

(CONTINUED)

Greenpoint Special Opportunities ("GSO") Fund is a credit led investment vehicle in the convertible debt space and was established during the year under review. Stellar was one of the initial investors with a R10 million indirect investment via AHI Asset Management.

Greenpoint Capital Investments was set up as the vehicle for Greenpoint Capital to invest into the funds it manages. The excess cash generated from the operational profits has been used to repay debt and create equity value of R5.8 million as at 30 June 2019.

Both Greenpoint Capital and Greenpoint Capital Investments are 100% held subsidiaries of Greenpoint Capital Holdings, of which Stellar holds 51% of the ordinary share capital.

### INYOSI SOLUTIONS

The manager of the Inyosi Supplier and Enterprise Development Funds outperformed its budget for the financial year ending 30 June 2019, primarily driven by assets under management which grew to R369.9 million at 30 June 2019 from R292.1 million at 30 June 2018.

Inyosi Solutions has also expanded its offering to its clients as it embarks into equity offerings and services to support its clients' objectives in the enterprise and supplier development space.

### AHI ASSET MANAGEMENT

Stellar injected R120 million of equity value into AHI Asset Management Proprietary Limited ("AHI") in the year under review by subscribing for ordinary shares. In addition to this, Stellar acquired the remaining equity in AHI previously held under Friedshelf for R11.6 million. AHI continues to hold the CAT 2A asset management license and intends leveraging this to support the activities of the current portfolio of managers in the group as well as expanding the exposure to other alternative asset classes.

### FRIEDSHELF ("CADIZ LIFE")

Following the transaction with Warwick in the previous financial year, the right-sizing of the traditional operations in the Cadiz Group continued in the year under review. Stellar has continued to extract excess capital and anticipates this will continue in the coming year with an ultimate result of the total extraction of capital value in due course.

### SITHEGA FUND

In April 2019, Stellar invested R54 million into the Sithega Financial Services Fund ("Sithega Fund") as part of the Prescient B-BBEE transactions and as a seed investor of the fund. Sithega is a black-owned and managed investment vehicle, led by Mr. Thabo Dloti, which has acquired a controlling stake in Prescient and has a desire to grow its exposure to the traditional financial services market.

### TELLUMAT

Following the decision to exit the investment taken in the previous financial year, Stellar is currently implementing a piecemeal exit approach and is currently engaging with an interested third party for the sale of two Tellumat divisions, which have been valued on a sustainable EBITDA basis. The remaining divisions continue to struggle with revenue declines and are expected to be recovered primarily by way of net asset value realisation. The reduction in the valuation of the investment in Tellumat is in line with the realisation strategy.

# INTRODUCTION

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## OUTLOOK

Stellar is nearing the end of its period of restructure and has concluded the disposals of its 2 material industrial assets and is progressing with the disposal process of the remaining industrial asset. This has resulted in the redemption of all its preference shares and a strong cash position which provides much needed flexibility in the current uncertain business environment.

Stellar has retained and expanded its exposure to the traditional financial services sector through Prescient and now Sithega, and in working closely with its partners in both these businesses, is optimistic about the growth strategies currently underway. Stellar has also continued to support and grow its exposure to alternative financial services businesses and is working closely with management in these businesses to expand offerings which allow for long term growth.

Stellar is now in a vastly stronger position with no debt and cash on the balance sheet to consider new opportunities. The initial focus will be on opportunities which are complimentary and supportive of the current investment portfolio but with a focus on disruptive and scalable business models. Stellar will be patient in its deployment of capital.

## CHANGES TO THE BOARD OF DIRECTORS AND COMPANY SECRETARY

There were no changes made to the Board of Directors during the year under review and up to the date of this report.

# SUM-OF-THE-PARTS (SOTP) VALUATION

## AS AT 30 JUNE 2019

| R'000 | % of portfolio | As at 30 June 2019 | As at 30 June 2018 |
|---|---|---|---|
| Financial Services | | | |
| Prescient | 24% | 318 496 | 710 005 |
| AHI Asset Management | 10% | 131 660 | - |
| Sithega Fund | 4% | 54 000 | - |
| Friedshelf | 2% | 23 430 | 69 217 |
| Praxis Financial Services | 2% | 24 450 | 20 973 |
| Greenpoint Capital Holdings | 1% | 12 260 | 2 595 |
| Inyosi Solutions | 1% | 7 724 | 4 931 |
| Industrials and technology | | | |
| Torre | 0% | - | 208 355 |
| Amecor | 0% | - | 398 207 |
| Tellumat [1] | 5% | 66 480 | 110 971 |
| Corporate Assets | | | |
| Financial assets | 0% | 1 132 | 26 647 |
| Loan portfolio [2] | 9% | 120 043 | 125 134 |
| Venture capital portfolio [3] | 2% | 29 952 | 29 958 |
| Cash and cash equivalents | 6% | 72 127 | 39 649 |
| Other assets [4] | 34% | 445 364 | 36 333 |
| **Total Assets** | | **1 307 118** | **1 782 975** |
| Preference share liability | | - | (584 392) |
| Other financial liabilities | | - | (26 576) |
| Trade and other payables | | (17 212) | (44 509) |
| **SOTP value** | | **1 289 906** | **1 127 498** |
| Net shares in issue ('000) [5] | | 1 056 812 | 1 075 032 |
| **SOTP value per share (Rand) [6]** | | **1.21** | **1.05** |

Notes:

1 The value comprises the sum of the investments in Tellumat and Amalinde Technologies

2 Investments in the Greenpoint Funds held indirectly via a preference share in AHI Asset Management

3 Held in Stellar International

4 Other assets at 30 June 2019 primarily comprises the receivable for the Amecor disposal proceeds that was receipted on 1 July 2019

5 Net shares in issue excludes 18.2 million treasury shares held by AHI Asset Management

6 SOTP value per share accounts for the effect of 18.2 million treasury shares acquired by AHI Asset Management at an average acquisition price of 70 cents per share

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

| R'000 | Notes | Audited as at 30 June 2019 | Audited as at 30 June 2018 |
|---|---|---|---|
| Non-current assets | | 694 189 | 828 402 |
| Listed investments at fair value | 7 | - | 208 355 |
| Unlisted investments at fair value | 7 | 692 063 | 577 852 |
| Other financial assets | | 1 102 | 13 985 |
| Loans to portfolio companies | | - | 27 975 |
| Deferred taxation | | 1 024 | 235 |
| Current assets | | 612 929 | 954 573 |
| Unlisted investments at fair value | 7 | 96 432 | 894 139 |
| Other financial assets | | 30 | 12 662 |
| Loans to portfolio companies | 8 | 19 607 | 4 948 |
| Trade and other receivables | | 424 733 | 3 175 |
| Cash and cash equivalents | | 72 127 | 39 649 |
| **Total assets** | | **1 307 118** | **1 782 975** |
| Equity | | 1 289 906 | 1 127 498 |
| Ordinary share capital | 9 | 2 347 806 | 2 347 806 |
| Preference share capital | 10 | - | 32 044 |
| Accumulated loss | | (1 057 900) | (1 252 352) |
| Current liabilities | | 17 212 | 655 477 |
| Preference share liability | | - | 584 392 |
| Other financial liabilities | | - | 26 576 |
| Current tax payable | | 53 | 127 |
| Trade and other payables | | 17 159 | 44 382 |
| **Total equity and liabilities** | | **1 307 118** | **1 782 975** |

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2019

| R'000 | Notes | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|---|
| Fair value adjustments | 11 | 8 978 | (366 692) |
| Fair value adjustments on listed investments | | 202 610 | (228 203) |
| Fair value adjustments on unlisted investments and other financial assets | | (3 291) | (54 654) |
| Fair value adjustments resulting from capital distributions | | (190 341) | (83 835) |
| Dividend income | 12 | 284 065 | 217 716 |
| Capital distributions | | 190 341 | 83 835 |
| Earnings distributions | | 93 724 | 133 881 |
| Interest income | | 3 463 | 5 845 |
| Gross profit / (loss) from investments | | 296 506 | (143 131) |
| Other income | | 1 353 | 2 259 |
| Finance costs | 13 | (88 360) | (86 627) |
| Net profit / (loss) before operating expenses | | 209 499 | (227 499) |
| Management fee | | (17 141) | (19 921) |
| Operating expenses | | (9 582) | (9 012) |
| Transaction costs | | (20 773) | (3 311) |
| Profit / (loss) before tax | | 162 003 | (259 743) |
| Taxation | | 405 | (1 426) |
| **Profit / (loss) for the year** | | **162 408** | **(261 169)** |
| Weighted number of shares in issue ('000) | | 1 073 385 | 1 075 032 |
| Earnings / (loss) per share (cents) | | 15.13 | (24.29) |
| Headline earnings / (loss) per share (cents) | | 15.13 | (24.23) |

# RECONCILIATION BETWEEN PROFIT / (LOSS) AND HEADLINE PROFIT / (LOSS)

## FOR THE YEAR ENDED 30 JUNE 2019

| R'000 | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|
| Profit / (loss) for the year | 162 408 | (261 169) |
| Impairment of receivable | - | 347 |
| Write-off of fixed assets | - | 293 |
| **Headline profit / (loss) for the year** | **162 408** | **(260 529)** |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2019

| R'000 | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|
| Balance at the beginning of the year | 1 127 498 | 1 388 667 |
| Redemption of preference share capital | (32 044) | - |
| Redemption of preference share capital – transfer to accumulated loss | 32 044 | - |
| Profit / (loss) for the year | 162 408 | (261 169) |
| **Balance at the end of the year** | **1 289 906** | **1 127 498** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

| R'000 | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|
| Operating activities | (207 970) | 224 981 |
| Cash (utilised in) / generated from operations and capital distributions received | (210 859) | 221 333 |
| Interest received | 3 347 | 4 879 |
| Tax paid | (458) | (1 231) |
| Investing activities | 939 777 | (54 115) |
| Acquisitions of investments | (200 102) | (28 076) |
| Disposals of investments | 1 100 966 | 1 000 |
| Net disposals of other financial assets | 25 597 | 2 375 |
| Net loans repaid by / (advanced to) portfolio companies | 13 316 | (29 983) |
| Disposal of property, plant and equipment | - | 569 |
| Financing activities | (699 329) | (144 771) |
| Net repayments of other financial liabilities | (25 000) | (75 000) |
| Preference share redemption | (600 000) | - |
| Preference share financing costs | (66 636) | (62 972) |
| Other financing costs | (7 693) | (6 799) |
| Cash and cash equivalents at the beginning of the year | 39 649 | 13 554 |
| Cash and cash equivalents at the end of the year | 72 127 | 39 649 |
| **Net increase in cash and cash equivalents** | **32 478** | **26 095** |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

Stellar is a South African domiciled investment holding company listed on the main board of the JSE Limited. The condensed consolidated financial statements of the Group as at and for the year ended 30 June 2019 comprise the Company and its Consolidated Subsidiary, Stellar Management Services Proprietary Limited.

The Company has significant interests in unlisted investments (2018: listed and unlisted investments), which are more fully set out in note 7. As an investment holding company, Stellar has applied the investment entity exception and accounts for its investments on a fair value basis, in accordance with IFRS 10 *Consolidated Financial Statements*.

## 2. FINANCIAL PREPARATION AND REVIEW

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including the disclosure requirements of IAS 34 *Interim Financial Reporting* and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as well as the JSE Listings Requirements and the Companies Act, No 71 of 2008. Amounts are presented in South African Rands.

The results include, as a minimum, the information required by IAS 34 and do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding to the changes in the Group's financial position and performance. In order to obtain a full understanding of the nature of the auditor's engagement, users should obtain a copy of the auditor's report, together with the accompanying financial information, from the Company's registered office.

These condensed consolidated financial statements have been prepared under the supervision of S Graham CA(SA), the Chief Financial Officer, and were approved by the Board of Directors on 29 August 2019. The directors take full responsibility for the preparation of these results, which are not themselves audited, but which have been correctly extracted and condensed from the audited financial statements of the Group approved on 29 August 2019.

The unmodified audit opinion of the auditors, BDO South Africa Incorporated in respect of the consolidated financial statements of the Group as at and for the year ended 30 June 2019 is available for inspection at the Company's registered office.

## 3. ACCOUNTING POLICIES

The accounting policies applied by the Group in these condensed consolidated financial statements are consistent with those applied in the consolidated annual financial statements for the period ended 30 June 2018 except for the first time adoption of IFRS 9 *Financial Instruments* ("IFRS 9").

All subsidiaries classified as portfolio investments are accounted for at fair value through profit or loss ("FVTPL") in terms of IFRS 9 (previously IAS 39 *Financial Instruments: Recognition and Measurement*) and all associates classified as portfolio investments are accounted for at FVTPL in terms of the exemption from applying the equity method of accounting provided in IAS 28 Investments in Associates and Joint Ventures. The adoption of IFRS 9 has not resulted in the restatement of any comparative information.

## 4. JUDGEMENTS AND ESTIMATES

Management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

In preparing these condensed consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial statements for the period ended 30 June 2018.

## 5. SEGMENT INFORMATION

As the Group has only one business segment which is managed as a single pool of capital irrespective of the sector in which the Group's investees trade, segmental reporting is not applicable.

## 6. DIVIDENDS

No ordinary dividends were declared during the year ended 30 June 2019 (2018: Rnil). Preference share dividends on preference share capital of R600 million accrued at 120% of prime for the year under review. During the year under review preference share dividends of R66.6 million were declared and paid. In the previous financial year R33.1 million of the R63 million preference share dividends declared were paid on 2 July 2018 (the current financial year), being the first banking day after 30 June 2018. The preference share dividends declared include an amount of R1.5 million paid to Mr CJ Roodt, an independent non-executive director of the Company (2018: R1.6 million).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 7. INVESTMENTS AT FAIR VALUE

All subsidiaries, associates and investments have a principle place of business in South Africa with the exception of Stellar International, which has a principle place of business in Mauritius.

### LISTED INVESTMENTS

| ENTITY | NATURE OF OPERATIONS | % HELD 30 JUNE 2019 | % HELD 30 JUNE 2018 |
|---|---|---|---|
| Torre | Industrial group that distributes and rents capital equipment and supplies aftermarket parts to the mining, manufacturing, construction and industrial markets across Africa | - | 57% |
| MRI | Processing and screening of coal fines, a by-product of coal mining (under care and maintenance) | - | 14% |

### UNLISTED INVESTMENTS

| ENTITY | NATURE OF OPERATIONS | % HELD 30 JUNE 2019 | % HELD 30 JUNE 2018 |
|---|---|---|---|
| Prescient | Diversified financial services group offering investment management, fund services, administration, stockbroking, wealth investment, retail and institutional and insurance products | 19% | 49% |
| Sithega Fund | Empowered investment holding entity | 30% | - |
| AHI Asset Management | Alternative asset manager | 100% | - |
| Friedshelf | Financial services group | 100% | 100% |
| Praxis Financial Services | Provider of short term finance to the panel beating industry to address motor body repairers' working capital needs | 37% | 37% |
| Greenpoint Capital Holdings | Provision of management services | 51% | 51% |
| Inyosi Solutions | Provision of management services | 75% | 75% |
| Amecor | Technology solutions and services in security | - | 100% |
| Tellumat | Technology solutions and services in manufacturing, air traffic control systems, defence and security and turnkey infrastructure solutions for the telecommunications industry | 49% | 49% |
| Amalinde Technologies (previously Masimong Technologies | B-BBEE investment holding company and B-BBEE partner of Stellar for Tellumat | 100% preference shares [1] | 100% preference shares [1] |
| Stellar International | Holding company for international venture capital investments | 100% | 100% |
| Preference share (investment in GSL and GSO Funds) | Preference share investment in AHI Asset Management | Sole preference share | Sole preference share |

[1] The preference shares held in Amalinde Technologies are non-cumulative and redeemable at the instance of the issuer.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

| R'000 | Opening balance | Acquisitions | Proceeds from disposals | Fair value adjustments | Fair value adjustments resulting from capital distributions | Closing balance |
|---|---|---|---|---|---|---|
| Listed investments | 208 355 | - | (308 255) | 202 610 | (102 710) | - |
| Torre | 208 355 | - | (308 131) | 202 486 | (102 710) | - |
| MRI | - | - | (124) | 124 | - | - |
| Unlisted investments | 1 471 991 | 200 102 | (792 711) | (3 256) | (87 631) | 788 495 |
| Prescient | 710 005 | - | (376 034) | 6 836 | (22 311) | 318 496 |
| Sithega Fund | - | 54 000 | - | - | - | 54 000 |
| AHI Asset Management | - | 131 660 | - | - | - | 131 660 |
| Friedshelf | 69 217 | - | - | - | (45 787) | 23 430 |
| Praxis Financial Services | 20 973 | - | - | 3 477 | - | 24 450 |
| Greenpoint Capital Holdings | 2 595 | - | - | 9 665 | - | 12 260 |
| Inyosi Solutions | 4 931 | - | - | 2 793 | - | 7 724 |
| Amecor | 398 207 | - | (416 677) | 18 470 | - | - |
| Tellumat * | 54 376 | - | - | (21 867) | - | 32 509 |
| Amalinde Technologies * | 56 595 | - | - | (22 624) | - | 33 971 |
| Stellar International * | 29 958 | - | - | (6) | - | 29 952 |
| Greenpoint Funds (incl. Greenpoint Senior Debt) | 125 134 | 14 442 | - | - | (19 533) | 120 043 |
| **Total** | **1 680 346** | **200 102** | **(1 100 966)** | **199 354** | **(190 341)** | **788 495** |

| | |
|---|---|
| Non-current unlisted investments | 692 063 |
| Current unlisted investments * | 96 432 |
| **Total** | **788 495** |

### TORRE

During the year under review Stellar accepted an offer to dispose of its entire shareholding in Torre, along with all other Torre shareholders, by way of a scheme of arrangement, for a cash consideration of R1.05 per Torre share. Prior to the disposal, the board of Torre declared a cash distribution of R0.35 per Torre share. A potential additional top-up cash payment of up to R0.10 per Torre share was subject to certain conditions being met, which were not achieved.

### MRI

The investment was exited in the year under review and disposal proceeds of R0.1 million have been received.

### PRESCIENT

In a series of transactions Prescient repurchased a total of 408.6 million of its shares held by Stellar (representing half of Stellar's investment) for R376.0 million during the year under review and the remaining Prescient shares held by Stellar were exchanged for preference shares of the same value in the new 56% shareholder of Prescient, which give Stellar the rights and economic benefits attributable to Prescient. Prescient also issued new shares as part of the series of transactions, resulting in a dilution of Stellar's investment to an effective 19.4% interest in Prescient.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

In April 2019 Prescient declared a capital distribution of R115 million, of which Stellar received R22.3 million, resulting in a corresponding downward fair value adjustment.

As at 30 June 2019 the fair value of the indirect investment in Prescient has been estimated by management using the sustainable earnings model, which is consistent with the valuation method used in the previous financial year. Management considers the P/E multiple to be the most appropriate valuation method. The effect on the statement of financial position of any assets and liabilities recognised by Prescient at 30 June 2019, which are not related to the business operations, has been included in the valuation.

| Significant unobservable inputs/assumptions | 2019 | 2018 |
|---|---|---|
| Estimated sustainable net profit after tax | R102.9 million | R101.4 million |
| P/E multiple | 13.8 times | 14.3 times |

### SITHEGA FUND

In April 2019 Stellar invested R54 million into the Sithega Financial Services Fund. The fair value of the investment is derived from the fund's unit value, as determined by the manager. The fair value of the recent investment in the fund is also supported by the valuation of Prescient as this is the fund's only investment as at 30 June 2019.

### AHI ASSET MANAGEMENT

Stellar injected R120 million of equity value into AHI Asset Management in the year under review by subscribing for ordinary shares. In addition to this Stellar acquired the AHI Asset Management shares previously indirectly held under Friedshelf 1678 Limited for R11.6 million.

As at 30 June 2019, the estimated fair value of the investment has been determined using the net asset valuation method and is materially supported by the recent equity injection.

### FRIEDSHELF

Friedshelf is the sole shareholder of both AHI Asset Management Holdings (previously Cadiz Asset Management Holdings) Proprietary Limited and CDZ Holdings (previously Cadiz Holdings) Proprietary Limited.

During the year under review the investment was reduced by R34.2 million as a result of a corresponding capital distribution to Stellar of the same amount. The investment was further reduced as a result of the disposal of the shares in AHI Asset Management for R11.6 million (the proceeds of which were distributed to Stellar).

As at 30 June 2019, Cadiz Life Limited is the only operational investment held by Friedshelf (under AHI Asset Management Holdings Proprietary Limited) and the estimated fair value of the investment has been determined using the net asset valuation method and is materially supported by the regulatory capital held in Cadiz Life Limited.

### PRAXIS FINANCIAL SERVICES

As at 30 June 2019, the fair value of the investment has been estimated by management using the sustainable earnings model, which is consistent with the valuation method used in the previous financial year. Management considers the P/E multiple to be the most appropriate valuation method.

| Significant unobservable inputs/assumptions | 2019 | 2018 |
|---|---|---|
| Estimated sustainable net profit after tax | R9.1 million | R7.3 million |
| P/E multiple | 7.2 times | 7.4 times |

The shares held in Praxis Financial Services have been pledged and ceded in *securitatem debiti* to the GSL Fund as a continuing general covering collateral security in respect of amounts owed by Praxis to the GSL Fund.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

### GREENPOINT CAPITAL HOLDINGS

Greenpoint Capital Holdings is the sole shareholder of both Greenpoint Capital, the appointed management company of the Greenpoint Funds, and Greenpoint Capital Investments Proprietary Limited, which holds units/shares in the Greenpoint Funds.

As at 30 June 2019, the fair value of Greenpoint Capital, the management company, has been estimated by management using the sustainable earnings model, which is consistent with the valuation method used in the previous financial year. Management considers the P/E multiple to be the most appropriate valuation method.

| Significant unobservable inputs/assumptions | 2019 | 2018 |
|---|---|---|
| Estimated sustainable net profit after tax | R2.7 million | R0.6 million |
| P/E multiple | 6.9 times | 8.6 times |

The valuation of Greenpoint Capital Holdings comprises Stellar's share of the estimated fair value of Greenpoint Capital of R18.4 million and the net asset value of Greenpoint Capital Investments of R5.8 million.

### INYOSI SOLUTIONS

As at 30 June 2019, the fair value of the investment has been estimated by management using the sustainable earnings model, which is consistent with the valuation method used in the previous financial year. Management considers the P/E multiple to be the most appropriate valuation method.

| Significant unobservable inputs/assumptions | 2019 | 2018 |
|---|---|---|
| Estimated sustainable net profit after tax | R1.9 million | R1.0 million |
| P/E multiple | 5.3 times | 6.6 times |

### AMECOR

In June 2019 Stellar disposed of Amecor for a cash consideration of R416.6 million, before transaction costs of R16 million. The disposal proceeds were only received on 1 July 2019 and are therefore recognised as a receivable at year-end.

### TELLUMAT

Following the decision to exit the investment taken in the previous financial year, Stellar is currently in a piecemeal exit process and the investment has been classified as current. As at 30 June 2019, the fair value of the investments in Tellumat and Amalinde Technologies (previously Masimong Technologies) Proprietary Limited, which owns 51% of Tellumat, are based on this approach. This represents a change in primary valuation methodology since June 2018 when the fair value was based on an estimated sustainable group EBITDA of R20.9 million and an EV/EBITDA multiple of 5.3 times.

In accordance with the Group's accounting policy, the primary valuation method used is the sustainable earnings multiple, unless this is not considered to be appropriate. The estimated fair value of the divisions of Tellumat which are engaged in active exit strategies via a sale process is based on a total estimated sustainable EBITDA of R9.9 million and an EV/EBITDA multiple of 5.3 times. The fair value of the remaining divisions has been based on the estimated recoverability of these divisions through a net asset value realisation approach.

### AMALINDE TECHNOLOGIES

Stellar holds 100% of the preference share capital of Amalinde Technologies, which holds 51% of Tellumat acquired through vendor funding. The preference shares accrue dividends at a rate of 90% of any dividends received from Tellumat.

As Tellumat is the only significant asset held by Amalinde Technologies as at 30 June 2019, the fair value of the investment in Amalinde Technologies has been determined with reference to its share of the estimated fair value of Tellumat. Because Stellar has taken the decision to exit the investment it has been classified as current.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

### STELLAR INTERNATIONAL

The functional currency of Stellar International is the US Dollar. Stellar International holds investments LifeQ, denominated in US Dollars, and Tictrac, denominated in British Pounds, which were acquired for $1 million and $0.8 million equivalent respectively.

As at 30 June 2019, the fair value of the investment in Stellar International has been estimated by management using the price of recent investment valuation method. Management considers this to be the most appropriate valuation method as both LifeQ and Tictrac are still in the early stages of development with no positive cash flows or profit history. The respective acquisition prices, along with the balance of cash, have therefore been converted to Rands using the foreign exchange spot rates on 30 June 2019. Stellar has taken the decision to exit this investment and therefore the investment in Stellar International has been classified as current as at 30 June 2019.

### GREENPOINT FUNDS AND GREENPOINT SENIOR DEBT

Stellar indirectly invests in B Units of the GSL Fund and in B Shares of the GSO Fund via a preference share in AHI Asset Management.

The fair values of the GSL and GSO Fund investments are derived from the B Unit and B Share values respectively, based on the respective net asset values as determined by the manager of the funds (Greenpoint Capital).

During the year under review, GSL B Units to the value of R18.5 million were redeemed and R8.5 million of proceeds was distributed to Stellar as a return of capital and R10 million of proceeds invested in B Shares in the GSO Fund. Subsequent to the redemptions, GSL returns of R1.5 million were reinvested into the fund. The indirect investment in the GSL Fund is valued at R108.1 million at 30 June 2019.

During the year under review, R10 million was invested in the newly established GSO Fund and subsequently GSO returns of R1.9 million were reinvested into the fund. The indirect investment in the GSO Fund is valued at R11.9 million at 30 June 2019.

During the year under review, Greenpoint Senior Debt acquired R11 million worth of accrued Stellar preference share dividends and Stellar received capital distributions of R11 million and earnings distributions of R37.2 million from Greenpoint Senior Debt relating to Stellar preference shares it acquired and held to redemption.

### OTHER DISCLOSURES

Refer to note 8 for details of funding provided to portfolio companies and note 12 for dividends and capital distributions received from portfolio companies.

### LEVEL 3 INVESTMENTS

With the exception of Torre, a previously listed entity, all portfolio companies are classified as Level 3. The Board of Directors has approved the valuation methodologies used by management for Level 3 investments. The Company receives reports from portfolio companies at each reporting date, either in the form of audited financial statements or unaudited management accounts. These are then used in the primary valuation techniques to determine fair value or in the secondary valuation techniques, which are used as reasonability checks. The table below shows the reconciliation of Level 3 movements:

| R'000 | Audited 30 June 2019 | Audited 30 June 2018 |
|---|---|---|
| Opening balance | 1 471 991 | 1 588 724 |
| Additions | 146 102 | 26 660 |
| Disposals | (792 711) | (1 000) |
| Transfers to Level 2 | (120 043) | - |
| Fair value movements | (3 256) | (58 558) |
| Fair value losses due to capital distributions | (87 631) | (83 835) |
| **Closing balance** | **614 452** | **1 471 991** |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

At the reporting date the investments in the Greenpoint Funds (GSL and GSO) were transferred from Level 3 to Level 2. The fair values of the GSL and GSO Fund investments are derived from the B Unit and B Share values respectively, as determined by the manager of the funds. The investments have therefore been categorised as Level 2 because any investors entering or leaving these funds will do so at these determined values. Similarly, the investment in Sithega Fund has been categorised as Level 2.

The table below shows the sensitivity analysis of Level 3 investments as at 30 June 2019:

| | Estimated fair value | Significant unobservable inputs | Reasonable possible variation | Reasonable possible change |
|---|---|---|---|---|
| Prescient | 318 496 | Sustainable NPAT | 10% | 27 580 |
| | | P/E multiple | 5% | 13 790 |
| AHI Asset Management | 131 660 | Net asset value | 10% | 13 166 |
| Friedshelf | 23 430 | Net asset value | 10% | 2 343 |
| Praxis Financial Services | 24 450 | Sustainable NPAT | 10% | 2 445 |
| | | P/E multiple | 10% | 2 445 |
| Greenpoint Capital Holdings | 12 260 | Sustainable NPAT | 10% | 932 |
| | | P/E multiple | 10% | 932 |
| Inyosi Solutions | 7 724 | Sustainable NPAT | 10% | 772 |
| | | P/E multiple | 10% | 772 |
| Tellumat | 32 509 | Sustainable EBITDA | 20% | 5 139 |
| | | EV/EBITDA multiple | 10% | 2 569 |
| Amalinde Technologies | 33 971 | Sustainable EBITDA | 20% | 5 371 |
| | | EV/EBITDA multiple | 10% | 2 685 |
| Stellar International | 29 952 | n/a | n/a | n/a |

## 8. LOANS TO PORTFOLIO COMPANIES

| R'000 | Audited 30 June 2019 | Audited 30 June 2018 |
|---|---|---|
| Greenpoint Capital | - | 15 159 |
| Friedshelf | - | 17 764 |
| AHI Asset Management | 19 607 | - |
| **Total** | **19 607** | **32 923** |
| | | |
| Non-current | - | 27 975 |
| Current | 19 607 | 4 948 |
| **Total** | **19 607** | **32 923** |

### GREENPOINT CAPITAL

In the previous financial year Stellar advanced funds to Greenpoint Capital in order for it to invest in its own funds (via Greenpoint Capital Investments). The loan is secured by the units in the GSL and GSO Funds held by Greenpoint Capital Investments. The loan was acquired by AHI Asset Management in July 2018.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

**FRIEDSHELF**

Of the balance outstanding as at 30 June 2018, R4.9 million of the loan was repaid in July 2018 and the remainder was settled as part of Stellar's R120 million equity contribution into AHI Asset Management (refer to note 7).

**AHI ASSET MANAGEMENT**

Stellar advanced funds on a short-term basis in May and June 2019. R4.6 million of the balance outstanding was repaid subsequent to year-end in July 2019 and the remainder is to be repaid on or before 30 November 2019.

## 9. ORDINARY SHARE CAPITAL

There has been no change to the number of authorised or issued shares during the year under review.

## 10. PREFERENCE SHARE CAPITAL

On 30 November 2015, the Company issued 600 convertible redeemable preference shares at R1 million each to raise R600 million in funding. The preference shares were issued at an initial dividend rate of 95% of prime and at an initial conversion price of R2.78. The preference shares were convertible, at the election of the holders, into a maximum of 215 827 338 ordinary shares.

No preference shareholders exercised their conversion rights and the preference shares were redeemed by Stellar in full and cancelled effective 31 May 2019.

## 11. FAIR VALUE ADJUSTMENTS

| R'000 | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|
| Fair value adjustments on listed investments | 202 610 | (228 203) |
| Torre | 202 486 | (228 203) |
| MRI | 124 | - |
| Fair value adjustments on unlisted investments and other financial assets | (3 291) | (54 654) |
| Prescient | 6 836 | 10 953 |
| Friedshelf | - | (12 816) |
| Praxis Financial Services | 3 477 | (29 671) |
| Greenpoint Capital Holdings / Greenpoint Capital | 9 665 | (1 207) |
| Inyosi Solutions | 2 793 | 1 281 |
| Amecor | 18 470 | 38 499 |
| Tellumat | (21 867) | (32 828) |
| Amalinde Technologies | (22 624) | (34 532) |
| Stellar International | (6) | 1 763 |
| Other financial assets | (35) | 3 904 |
| Fair value adjustments resulting from capital distributions | (190 341) | (83 835) |
| **Total** | **8 978** | **(366 692)** |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 12. DIVIDEND INCOME

| R'000 | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|
| Capital distributions | 190 341 | 83 835 |
| Torre | 102 710 | - |
| Prescient | 22 311 | - |
| Friedshelf | 45 787 | 4 829 |
| Greenpoint Capital Holdings / Greenpoint Capital | - | 4 000 |
| Greenpoint Senior Debt | 11 032 | - |
| Preference share (GSL and GSO Fund redemptions) | 8 501 | 75 006 |
| Earnings distributions | 93 724 | 133 881 |
| Torre | - | 8 761 |
| Prescient | 13 607 | 44 132 |
| Greenpoint Capital Holdings / Greenpoint Capital | - | 1 066 |
| Inyosi Solutions | 750 | - |
| Amecor | 21 000 | 53 000 |
| Greenpoint Senior Debt | 37 297 | - |
| Preference share (GSL and GSO Fund returns) | 21 070 | 26 922 |
| **Total** | **284 065** | **217 716** |

## 13. FINANCE COSTS

| R'000 | Audited year ended 30 June 2019 | Audited year ended 30 June 2018 |
|---|---|---|
| Preference share liability interest accrual | 82 244 | 78 252 |
| Bridge facility interest expense | - | 6 536 |
| Interest accrual on loan payable | 514 | 1 576 |
| Loans from portfolio companies | 5 602 | - |
| Other interest expense | - | 263 |
| **Total** | **88 360** | **86 627** |

Interest on the preference share liability resulted from the unwinding of the discounted capital balance to the redemption value. Refer to note 6 for details of dividends on the preference shares. Interest of 1 month JIBAR plus 2.75% was charged on the bridge facility and was serviced monthly. The loan payable accrued interest at prime plus 3% per annum plus a once-off raising fee. Interest on loans from portfolio companies relates to short term funding advanced to Stellar, which accrued interest at an average rate of 10% per annum.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 14. RELATED PARTY TRANSACTIONS

Related party transactions are entered into in the ordinary course of business and comprise (i) transactions with portfolio companies (refer to notes 7, 8, 12, 13 and 15), including loans advanced/repaid, interest income, dividends received and amounts received or paid in respect of services provided; and (ii) management fees paid to Thunder Securitisations Proprietary Limited of R17.1 million (2018: R19.9 million).

## 15. CONTINGENT LIABILITIES

At the reporting date, the Company has issued limited corporate guarantees in favour of the creditors of Praxis Financial Services for R32.5 million (2018: R32.5 million), which can be cancelled with 3 months' notice by either party.

## 16. EVENTS AFTER THE REPORTING PERIOD

On 15 August 2019 Deloitte & Touche, as the auditors appointed to determine the top-up payment due to the previous Torre Industries shareholders, advised that no top-up payment was due to the previous Torre Industries shareholders in terms of the rules of the Scheme.

By order of the Board

**DD Tabata**

Chairman of the Board

29 August 2019

# FORWARD LOOKING STATEMENTS

Any forward-looking statements included in this results announcement involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Any reference to forecast information included in this results announcement does not constitute an earnings forecast and has not been reviewed or reported on by the Group's external auditors.

## DIRECTORS

DD Tabata (Chairman)*, PJ Van Zyl (Chief Executive Officer), S Graham (Chief Financial Officer), CJ Roodt~, MVZ Wentzel*, MM Ngoasheng*, L Potgieter*, HC Steyn^, PJ Bishop^

^ Non-executive
* Independent non-executive
~ Lead Independent non-executive

## COMPANY SECRETARY

Wilma Dreyer

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7708

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Cape Town
7735

## TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited

## SPONSOR

Rand Merchant Bank (a division of FirstRand Bank Limited)

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