UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

HPL&R
Hosken Passenger Logistics & Rail

CORPORATE INFORMATION

HOSKEN PASSENGER LOGISTICS AND RAIL LIMITED
(Previously Niveus Invest 17 Proprietary Limited)
Incorporated in the Republic of South Africa
Registration number: 2015/250356/06
JSE share code: HPR
ISIN: ZAE000255907

("HPLR" or "the Company" or "the Group")

Directors:
Y Shaik* (Chairman)
TG Govender* (Deputy Chairman)
FE Meyer (Chief Executive Officer)
ML Wilkin (Chief Financial Officer)
L Govender (Lead Independent Director)#*
NB Jappie#*
KF Mahloma#*

** Non-executive*
 # Independent

Registered Address
103 Bofors Circle
Epping Industria
Cape Town,7460

Company Secretary
HCI Managerial Services Proprietary Limited
(Registration number 1996/017874/07)
Suite 801
76 Regent Road
Sea Point
Cape Town, 8005
(PO Box 5251, Cape Town, 8000)

Auditors
BDO Cape Incorporated
6th Floor, 123 Hertzog Boulevard
Foreshore
Cape Town, 8001
(PO Box 3883, Cape Town, 8000)

Transfer Secretaries
Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07)
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

Sponsor:
PSG Capital Proprietary Limited
(Registration number 2006/015817/07)
1st Floor, Ou Kollege
35 Kerk Street
Stellenbosch, 7600
(PO Box 7403, Stellenbosch, 7599)

and at

2nd Floor, Building 3
11 Alice Lane
Sandhurst
Sandton, 2196
(PO Box 650957, Benmore, 2010)

Website Address:
www.hplr.co.za

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Unaudited 30 September 2018 R'000	Reviewed 30 September 2017[1] R'000	Audited 31 March 2018 R'000
ASSETS			
Non-current assets	1 773 274	1 376 262	1 709 120
Property, plant and equipment	1 503 279	1 347 891	1 462 937
Goodwill	8 451	8 451	8 451
Intangible assets	62	57	78
Investments in associates	23 565	19 466	18 343
Deferred taxation	414	397	414
Other financial asset	237 503	–	218 897
Current assets	755 588	433 180	630 598
Inventories	15 654	17 220	15 714
Other financial asset	237 503	–	237 503
Trade and other receivables	243 122	217 431	67 816
Taxation	1 002	1 256	1 435
Cash and cash equivalents	258 307	197 273	308 130
Total assets	2 528 862	1 809 442	2 339 718
EQUITY AND LIABILITIES			
Equity	1 489 918	922 725	1 406 308
Equity attributable to equity holders of the parent	1 450 778	885 780	1 373 693
Non-controlling interest	39 140	36 945	32 615
Non-current liabilities	613 610	529 361	557 397
Borrowings	353 190	274 676	300 887
Post-employment medical benefit liability	62 984	77 958	58 928
Deferred taxation	197 436	176 727	197 582
Current liabilities	425 334	357 356	376 013
Trade and other payables	141 985	76 252	124 720
Financial liabilities	–	1 983	–
Current portion of borrowings	153 204	148 320	149 323
Taxation	9 309	15 516	4 340
Provisions	120 836	115 285	97 630
Total equity and liabilities	2 528 862	1 809 442	2 339 718

[1] *The comparatives of the Company and its subsidiaries ("Group") have been prepared on the common control accounting method.*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2018

	Unaudited 6 months ended 30 September 2018 R'000	Reviewed 6 months ended 30 September 2017[1] R'000	Audited year ended 31 March 2018 R'000
Revenue	**816 072**	873 526	1 808 406
Other Income	**2 714**	2 256	4 501
Operating expenses	**(651 468)**	(672 066)	(1 358 793)
Operating profit	**167 318**	203 716	454 114
Depreciation and amortisation	**(60 168)**	(56 676)	(112 076)
Investment income	**25 508**	7 394	22 310
Share of profits of associates	**5 679**	3 020	7 283
Finance costs	**(20 086)**	(23 219)	(39 618)
Profit before taxation	**118 251**	134 235	332 013
Taxation	**(34 641)**	(38 637)	(86 619)
Profit for the period	**83 610**	95 598	245 394
Attributable to:			
Equity holders of the parent	**77 085**	88 264	235 947
Non-controlling interest	**6 525**	7 334	9 447
	83 610	95 598	245 394

[1] *The Group's comparatives have been prepared on the common control accounting method.*

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Unaudited 6 months ended 30 September 2018 R'000	Reviewed 6 months ended 30 September 2017[1] R'000	Audited year ended 31 March 2018 R'000
Profit for the period	83 610	95 598	245 394
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedging – gains/(losses)	–	4 306	(343)
Cash flow hedging – amount capitalised to property, plant and equipment	–	–	6 633
Taxation relating to cash flow hedging	–	(1 206)	(1 761)
Items that may not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit plans	–	–	16 863
Taxation relating to actuarial gains/(losses) on defined benefit plans	–	–	(4 722)
Total comprehensive income for the period	83 610	98 698	262 064
Attributable to:			
Equity holders of the parent	77 085	91 364	252 617
Non-controlling interest	6 525	7 334	9 447
	83 610	98 698	262 064

[1] *The Group's comparatives have been prepared on the common control accounting method.*

RECONCILATION OF HEADLINE EARNINGS

	Unaudited 6 months ended 30 September 2018 R'000		Reviewed 6 months ended 30 September 2017[1] R'000		Audited year ended 31 March 2018 R'000	
Reconciliation of headline earnings	Gross	Net	Gross	Net	Gross	Net
Earnings attributable to equity holders of the parent		77 085		88 264		235 947
IAS 16 (Profit)/loss on disposal of plant and equipment	(1 120)	(806)	(636)	(458)	(860)	(619)
Headline profit		76 279		87 806		235 328
Earnings per share (cents)						
Basic		26.58		30.44		81.36
Diluted		26.58		30.44		81.36
Headline earnings per share (cents)						
Basic		26.30		30.28		81.15
Diluted		26.30		30.28		81.15
Weighted average number of shares in issue ('000)						
Basic		290 000		290 000		290 000
Diluted		290 000		290 000		290 000
Actual number of shares in issue ('000)		290 000		–		290 000

[1] *The Group's comparatives have been prepared on the common control accounting method.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Unaudited 6 months ended 30 September 2018 R'000	Reviewed 6 months ended 30 September 2017[1] R'000	Audited year ended 31 March 2018 R'000
Balance at the beginning of the period	1 406 308	829 570	829 570
Shares issued	–	–	2 900 000
Share issue costs	–	–	(3 538)
Total comprehensive income	83 610	98 698	262 064
Effects of changes in shareholding[1]	–	–	(1 800 000)
Dividends/distribution to shareholders	–	(5 543)	(781 788)
Balance at the end of the period	1 489 918	922 725	1 406 308

[1] *The Group's comparatives have been prepared on the common control accounting method.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Unaudited 6 months ended 30 September 2018 R'000	Reviewed 6 months ended 30 September 2017[1] R'000	Audited year ended 31 March 2018 R'000
Cash flows from operating activities	**2 859**	(5 216)	249 763
Cash generated by operations	**45 429**	35 489	467 333
Investment income	**6 902**	7 394	15 132
Finance cost	**(20 086)**	(23 218)	(36 940)
Taxation paid	**(29 386)**	(19 338)	(63 776)
Dividends paid	**–**	(5 543)	(131 986)
Cash flows from investing activities	**(35 603)**	(22 351)	(97 117)
Dividends received	**–**	–	5 000
Acquisition of property, plant and equipment[2]	**(39 511)**	(24 346)	(104 079)
Proceeds from sale of property, plant and equipment	**3 908**	1 995	1 962
Cash flows from financing activities	**(17 079)**	(63 557)	(132 913)
Ordinary shares issued	**–**	–	649 802
Other liabilities raised	**–**	–	(3 538)
Funding raised[2]	**60 000**	30 000	30 000
Funding repaid	**(77 079)**	(93 557)	(159 375)
Distribution to shareholders	**–**	–	(649 802)
(Decrease)/increase in cash and cash equivalents	**(49 823)**	(91 124)	19 733
Cash and cash equivalents			
At the beginning of the period	**308 130**	288 397	288 397
At the end of the period	**258 307**	197 273	308 130

1 *The Group's comparatives have been prepared on the common control accounting method.*

2 *R73.2 million (September 2017: R61.3 million; March 2018: R155.9 million) of debt raised in the period related to instalment sale agreements used to finance bus acquisitions, and have therefore not been included in the cash flow statement as a cash flow amount.*

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The results for the six months ended 30 September 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the disclosure requirements of IAS 34 – Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, No. 71 of 2008 (as amended) and the Listings Requirements of the JSE Limited.

The accounting policies applied by the Group in preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended 31 March 2018. The adoption of new standards that are applicable for this financial year had no impact on the figures presented. Details of the standards adopted will be provided in the annual financial statements. As required by the Listings Requirements of the JSE Limited, the Group reports headline earnings in accordance with Circular 4/2018 – Headline Earnings, as issued by the South African Institute of Chartered Accountants.

These interim financial statements were prepared under the supervision of the Chief Financial Officer, Mr Mark Wilkin CA(SA) and have neither been audited nor independently reviewed by the Group's auditors.

OPERATING SEGMENTS

The directors have considered the implications of IFRS 8: Operating segments and are of the opinion that the operations of the Group constitute one operating segment, being the provision of passenger transport services within South Africa. Resource allocation and operational management is performed on an aggregate basis. Performance is measured based on profit or loss before tax as shown in internal management reports that are reviewed by the Chief Operating Decision Maker, who is the Group's Chief Executive Officer.

OTHER FINANCIAL ASSET

On 1 October 2018, R237 503 000 was received as part settlement of the promissory notes ceded to HPLR on the restructure of the Group and is included in the Statement of Financial Position as a current financial asset at 30 September 2018. The final instalment of the promissory notes is included as a non-current financial asset at 30 September 2018 and is receivable on 1 October 2019. The instalments are secured by way of Investec Bank payment obligations and carry interest at 8.5% compounded annually.

COMMENTARY AND RESULTS

The first six months of operations were significantly impacted by a debilitating five week labour strike and a record increase in fuel costs. The combination of lost revenue (reflecting a 6.6% decrease in revenue in comparison to the same period last year), exorbitant hikes in the fuel price due to rising costs in the US$ oil price and a weakening of the Rand, and the high settlement of an 8.5% average annual wage increase over the next two years, resulted in operating profits being 17.8% lower than the same period last year.

In addition, there was a surge in political protest action during the period under review which impacted Golden Arrow and the relevant MyCiTi operations negatively. During this period, six Golden Arrow buses were lost due to arson. Although September was noticeably less volatile, expectations are that protests will continue and even escalate in the wake of the impending 2019 elections. To mitigate further losses, early warning systems through improved operational supervision and close liaison with law enforcement agencies have been implemented.

Management continues to drive efficiencies throughout the Group. The roll-out of Golden Arrow's Automated Fare Collection (AFC) system was completed in October 2018. The ridership data derived from the automated system will assist management in instituting further efficiencies across its operations and highlight opportunities across the value chain.

Despite the challenging operational conditions, daily passenger numbers have consistently reflected an upward trajectory that can inter alia be attributed to declining private car usage as a result of the high fuel price together with the ailing Metrorail train system and improved ticket controls as a result of the newly implemented AFC system.

During this period, Golden Arrow implemented a 5% interim fares increase and introduced 31 new buses into service as part of their continuing fleet replacement program.

As part of the overall efficiency drive and in line with the Group's sustainability initiatives, a second solar PV system was approved and is currently under construction at Golden Arrow's Multimech facility. Similarly, a new bus washing machine which recycles up to 80% of water used, was constructed at Golden Arrow's Southgate depot and commissioned 1 October 2018.

Construction of the Training and Recruitment Centre has been completed and occupation was taken at the beginning of September 2018.

Eljosa Travel & Tours were successful in becoming the preferred operator for the Amazing Africa Tour Group in Gauteng and for this purpose 3 luxury coaches were deployed to the Gauteng region. In total Eljosa added a further 10 vehicles to their fleet during the period under review.

The Group continues to pursue efficiencies throughout its operations, as well as exploring opportunities to realise its future growth potential.

STATEMENT OF PROFIT AND LOSS

The remaining notable movement in the statement of profit and loss is the recognition of R18.6 million in investment revenue relating to interest earned on the promissory notes for the six months ended 30 September 2018.

STATEMENT OF FINANCIAL POSITION AND CASH FLOWS

The increase in property, plant and equipment is largely due to the acquisition of R73.2 million of buses across the Group, which were financed through instalment sale agreements, and as such additions are shown net of these borrowings raised in the statement of cash flows.

CHANGES IN DIRECTORATE

There were no changes in directorate during the period under review.

ORDINARY AND SPECIAL DIVIDENDS TO SHAREHOLDERS

The directors have approved and declared an interim ordinary dividend of 14 cents (gross) per HPLR share for the six months ended 30 September 2018 from income reserves.

In addition to the interim dividend, the directors of HPLR have approved and declared a special dividend of 75 cents (gross) per HPLR share from distributable reserves. From an exchange control and JSE perspective this dividend constitutes a "special dividend". SARB approval has been obtained for the declaration of the special dividend.

The salient dates for the payment of these dividends are as follows:

Announcement date	Wednesday, 21 November 2018
Last day to trade cum dividend	Tuesday, 11 December 2018
Trading ex-dividend commences	Wednesday, 12 December 2018
Record date	Friday, 14 December 2018
Payment date	Tuesday, 18 December 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 12 December 2018 and Friday, 14 December 2018, both days inclusive.

In terms of legislation applicable to Dividends Tax ("DT") the following additional information is disclosed:

- The special dividend and the interim ordinary dividend shall each constitute a "dividend" as defined in the Income Tax Act, 58 of 1962.
- The local DT rate is 20%.
- The number of ordinary shares in issue at the date of the declaration is 290 000 000.
- The DT amounts to 2.8 cents per share for the interim ordinary dividend and 15 cents per share for the special dividend.
- The net local dividend amount is 11.2 cents per share for the ordinary interim dividend and 60 cents per share for the special dividend for all shareholders who are not exempt from the DT.
- HPLR's income tax reference number is 9754/276/16/1.

In terms of DT legislation, any DT amount due will be withheld and paid over to the South African Revenue Service by a nominee company, stockbroker or Central Securities Depository Participant (collectively "regulated intermediary") on behalf of shareholders. All shareholders should declare their status to their regulated intermediary as they may qualify for a reduced DT rate or exemption.

For and on behalf of the board of directors

FE Meyer
Chief Executive Officer

ML Wilkin
Chief Financial Officer

21 November 2018