

Hosken Consolidated Investments Limited

I N T E G R A T E D   A N N U A L   R E P O R T

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2014

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## SCOPE OF INTEGRATED REPORT AND ASSURANCE

HCI's integrated report provides a summary of the Group's financial, social and environmental performance on matters material to the group and those of interest to the Group's key stakeholders for the financial year ended 31 March 2014.

This summary of our results includes an executive review of our performance as published on SENS on 22nd May 2014 and in the Business Day on 23rd May 2014.

HCI is a publicly owned investment holding company listed on the JSE with a diverse investment basis. The company has investments as reflected on pages 4 and 5 of this integrated report.

### *Business philosophy*

HCI's business philosophy incorporates principles which have been identified through experience and continue to evolve.

Our approach is to build long-term value for our stakeholders through focused and ethical business management. Wherever possible we take controlling interests in our businesses, we capitalise them adequately and we deploy appropriate management resources. We act in ways that comply with legal and regulatory requirements, and that respect the rights of organised labour. We aim to be good corporate citizens, operating sustainable businesses in a dynamic environment. In line with the requirements of the King Report on Corporate Governance ("King III"), HCI is aiming for enhanced reporting systems and measures so as to provide increased value-added information to stakeholders. Generally, detailed forward-looking information is not provided.

In accordance with the stated objectives of integrated reporting, this report focuses on those issues that have a material impact on the group to create and sustain value. The scope of the report does not extend to cover all issues relating to subsidiaries and associates. The scope limitation does not impact on the completeness of the report as separate integrated annual reports for the listed entities are published and can be found on [www.oceaniacapital.com.au](http://www.oceaniacapital.com.au); [www.tsogosun.com](http://www.tsogosun.com); [www.niveus.co.za](http://www.niveus.co.za); and [www.seardel.co.za](http://www.seardel.co.za)

This report should be read in conjunction with the following supporting reports available on our website [www.hci.co.za](http://www.hci.co.za):

- Governance register
- Risk report
- Remuneration report
- Annual financial statements

The legal requirements in the Companies Act 2008, as amended, which became effective on 1 May 2011, coupled with the JSE's initiatives, have allowed the company to provide shareholders with summarised printed financial information. This has enabled the company to exclude certain financial reporting requirements, resulting in a shortened report which, ultimately, reduces the company's carbon footprint and promotes the company's sustainability efforts. HCI takes a sustainable approach to its business and has, since 2008, increased its use of green paper in the production of the annual report.

The Group operates principally in South Africa, and generates the majority of its revenue from South Africa. The corporate headquarters of the company is located in Cape Town, South Africa. The geographical footprint of the group is provided on pages 6 and 7 of the report.

Where relevant in the report, adjusted comparatives are shown on a like-for-like basis to assist in the understanding of the group's results. The financial information extracted from the audited HCI consolidated annual financial statements for the year ended 31 March 2014 has been correctly quoted in this integrated annual report.

The notice of the annual general meeting, proxy form and other administrative information also form part of the summarised report and can be found on pages 77 to 83.

The reporting principles which have been applied in this integrated annual report is in accordance with International Financial Reporting Standards (IFRS), the Companies Act of South Africa 2008 (as amended), the JSE Listings Requirements, King III and the guidance provided in the Integrated Reporting Committee of South Africa's Framework for Integrated Reporting and the Integrated Report Discussion Paper (Framework) 2011. The sustainability information included in this report has been guided by the Green House Gas Protocol published by the World



Resources Institute, the Carbon Disclosure Programme and the National Business initiative.

The board, assisted by the audit and risk committee, is responsible for overseeing the integrity of the integrated report.

The directors confirm that they have collectively reviewed the content of the integrated report and believe it addresses the material issues and is a fair representation of the integrated performance of the group. Combined assurance is a work in progress and the group has, as yet, not achieved optimal coordination of the different forms of assurance.

Assurance was provided for different aspects of our reporting from a variety of sources. These include:

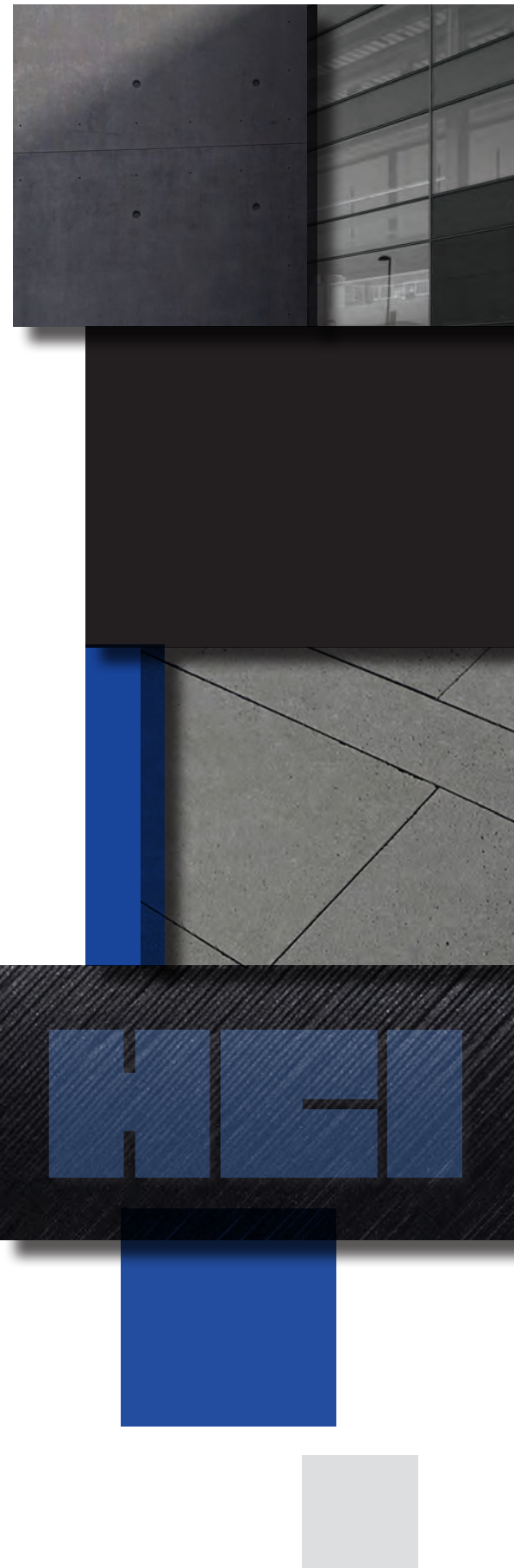
- The annual financial statements and related financial information was audited by independent auditors Grant Thornton (Jhb) Inc.
- The South African broad-based black economic empowerment information was verified by Empowerlogic.
- IoDSA Governance Assessment Instrument was applied to gain assurance of compliance with the JSE listing requirements in respect of King III.
- The sustainable development information in respect of the Carbon Disclosure Project was compiled with the assistance of Linkd.

The board approved this integrated annual report on 27 August 2014.

We welcome any feedback on the integrated report at [info@hci.co.za](mailto:info@hci.co.za)

#### *Forward-looking statements*

This integrated report contains certain forward-looking statements which relate to the financial position and results of the operations of the Group and its underlying investments. These statements by their nature involve risk and uncertainty as they relate to events and depend on circumstances that may occur in the future. These forward-looking statements have not been reviewed or reported on by the Group's external auditors.



## OPERATING STRUCTURE

AS AT 27 AUGUST 2014

**HI**  
GROUP OF

### LISTED COMPANIES

 **TSOGO SUN**

TSOGO SUN  
HOLDINGS  
47.7%

  
**SEARDEL**  
INVESTMENT CORPORATION LIMITED

SEARDEL INVESTMENT  
CORPORATION  
74.0%

**NIVEUS**  
INVESTMENTS LIMITED

NIVEUS  
INVESTMENTS  
52.4%

  
**oceania**  
CAPITAL

OCEANIA CAPITAL  
PARTNERS  
67.7%

  
**SABIDO**  
PROPERTIES

SABIDO INVESTMENTS  
63.9%



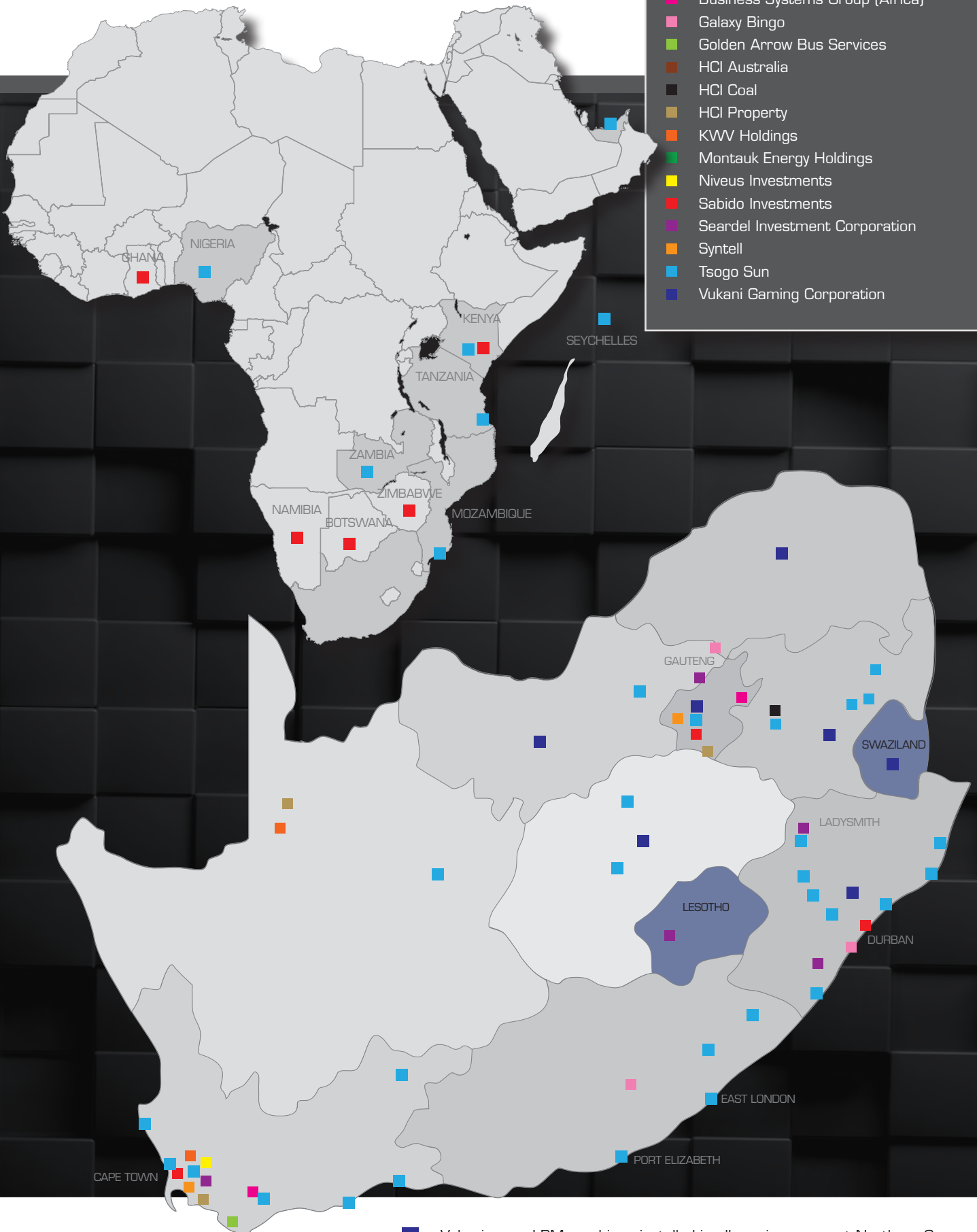
UNLISTED COMPANIES



## GEOGRAPHICAL FOOTPRINT

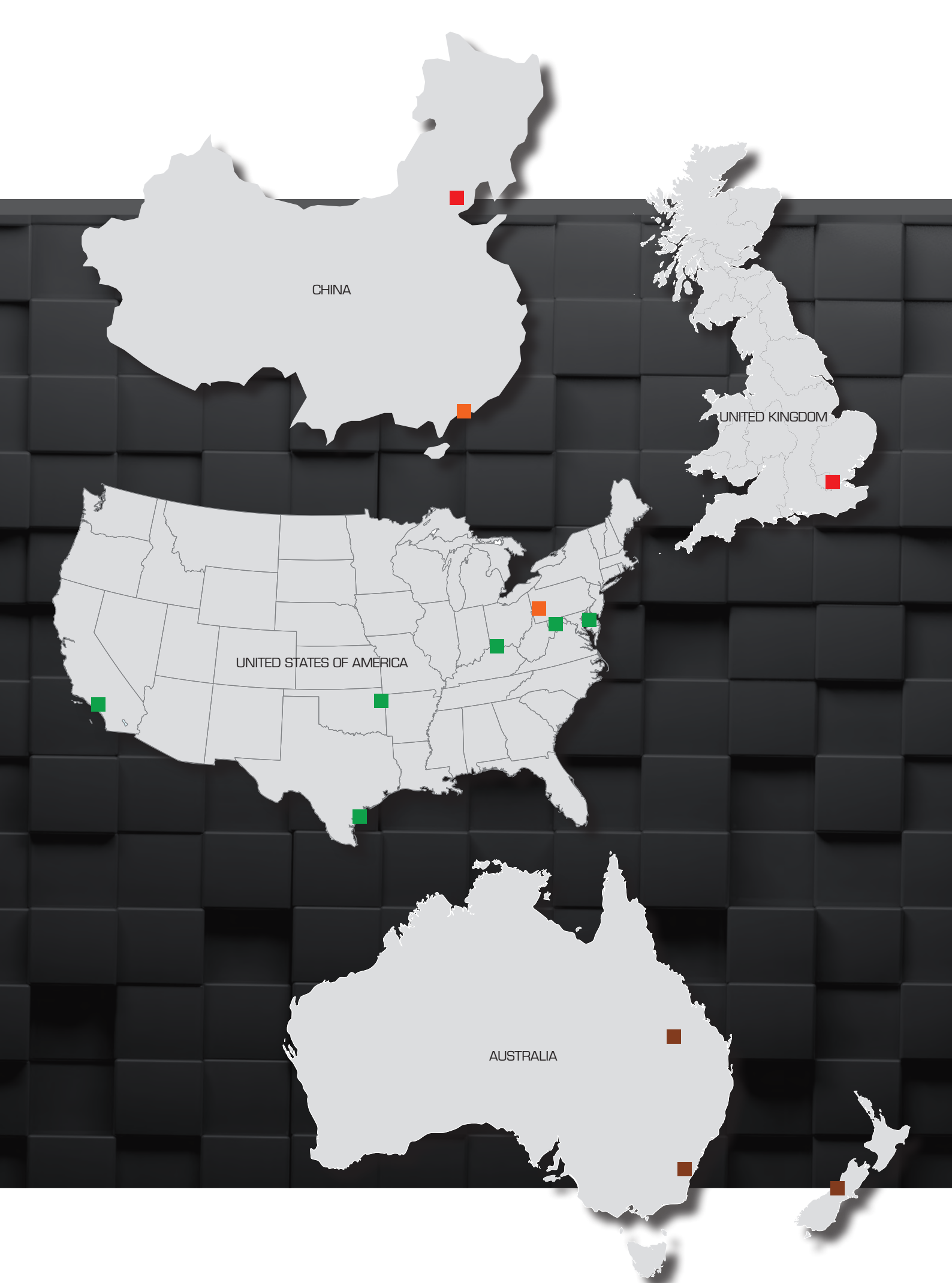
### COMPANIES

- Business Systems Group (Africa)
- Galaxy Bingo
- Golden Arrow Bus Services
- HCI Australia
- HCI Coal
- HCI Property
- KWW Holdings
- Montauk Energy Holdings
- Niveus Investments
- Sabido Investments
- Seardel Investment Corporation
- Syntell
- Tsogo Sun
- Vukani Gaming Corporation



■ Vukani - LPM machines installed in all provinces except Northern Cape

■ Tsogo Sun - Hotels in all the provinces; casinos in all provinces except North West; Limpopo and Northern Cape





## LETTER TO SHAREHOLDERS

The HCI share price grew from R112 to R149 during the 2014 financial year, an increase of roughly 33%. On the other hand the financial results for the same year showed an increase of some 10% in headline earnings.

The anomaly of the excellent growth in share performance relative to growth in headline earnings is largely explained by the fact that HCI achieved this growth in a year during which it bought back some 13,8% of its issued shares, net of treasury shares.

Effectively, this combination constituted an increase in headline earnings per share of around 27,5% for the remaining shares and transformed results that were somewhat flatter than previous years into an excellent year's result.

HCI has also cost-effectively restructured its debt at the centre of the Group over the next five years, thereby ensuring that its balance sheet is not subject to any significant short-term pressures. This debt, around two times our cash flow and a little over 1,2 times our EBITDA, appears a satisfactory level of gearing for the Group.

### *Restructuring of listed subsidiaries*

Our interest in Tsogo Sun Holdings ("Tsogo") has for some time been held together with a shareholder agreement with SABMiller ("SABM") which gave us joint control of the board of that company.

Subsequent to year-end, SABM decided to sell its interest in this company. We took the opportunity to encourage Tsogo to buy back a large block of its shares at a discounted price agreed with SABM. The effect of this



MJA Golding  
Chairman

buyback, together with a small parcel of Tsogo shares bought by HCI directly, is to concentrate our holding in this company to sole control with a 47,5% stake. As a result we will again consolidate Tsogo's results in HCI in the future.

At the end of the last financial year the group sold 30% of its interest in Sabido Investments ("Sabido") to SACTWU. During this financial year both SACTWU and HCI reversed their stakes into Seardel Investment Corporation ("Seardel") for a mixture of preference share debt and non-voting equity. Together, we subsequently simplified the capital structure of Seardel by underwriting a R5 billion rights issue. After year-end we further reintegrated the offshore media operations of Longkloof back into Sabido, consolidating all media operations of the group into Seardel. We currently hold 78% of the voting shares of Seardel.

HCI also announced the unbundling of Montauk Energy into a separate listing. It is hoped that this will be completed in the next few months.

### *Developments in our businesses*

This year has seen the usual buzz of new ideas and new investments expanding the businesses of our subsidiaries in many ways. Tsogo has been furiously renovating and extending its Silverstar Casino, as well as its offering at

Gold Reef. Construction at Silverstar will be completed in the immediate future while, at Gold Reef, it will continue into next year. In addition, we have been doubling the size of our hotel in Maputo and completion is set for September. Permission has finally been granted by the Durban Municipality to proceed with the further development of our property at Suncoast. Tsogo will accordingly commence a major expansion at this property in the next few months.

Apart from these massive constructions, Tsogo has also significantly expanded its presence in Cape Town by agreeing to buy a 40% stake in the Grand West Casino. This transaction is subject to approval by the Competition authorities but will, hopefully, shortly provide the Group with a substantial entry into the Cape Town casino market. Furthermore, Tsogo purchased a sixty percent stake in a number of hotel properties which we have, to date, been managing for Liberty Life.

Sabido commenced a new business which is a platform for a satellite-based distribution of free digital channels. This is a long-term project aimed at building up an independent platform capable of distributing many free digital channels over time.

Galaxy Bingo has been awarded several new bingo licences in the Kwazulu region and has been beaver away intensely at developing these sites. There remain ticklish issues in relation to electronic bingo terminals but, in our view, delays by the state cannot plug the dyke much longer and we anticipate machines will be rolled out at several of these sites in the immediate future. Galaxy has likewise been developing its sites in the Eastern Cape where it had previously been awarded licences.



JA Copelyn  
Chief Executive Officer

Niveus Investments has acquired a majority stake in a casino licence at Kuruman and is currently building a casino with its opening planned for December.

At our coal business we have secured a mining right at Rooipoort and are in the process of consolidating this with Palesa. Very recently we have also been notified of the decision to award to us our mining right at Nokuhle colliery. Production has also started at Mbali and, while this proved more difficult to bring to decent levels of production than we had anticipated, it is now well on its way.

Sear del purchased a new manufacturing business, Custom Extrusion, as well as acquiring the distribution rights for several sporting brands not previously in its ambit, including Dunlop and Slazenger. It also distributes the Xbox and Disney Interactive Studio Games products which will add significant bulk to Sear del as a growing, diversified distributor.

Over the last couple of years we have been obliged to highlight the very challenging regulatory pressures surrounding Golden Arrow Bus Services ("GABS") which has been forced to couple decision making to substantially renew its fleet in an environment where the contractual basis for its entire business has been subjected to termination on short notice. We are pleased to report that, for the first time in quite a long period, that GABS



## LETTER TO SHAREHOLDERS

has succeeded in entering into a binding memorandum of understanding with both the City and the Region, whereby all parties have signed commitments to aligning their programmes for the development of public transport in collaboration with each other over the next decade, and we are now more confident that the role of a company like GABS is both more appreciated and will be encouraged to continue to play the key role in providing public bus transport that it has to date.

Montauk has finally succeeded in bringing together all the elements needed to develop a twenty megawatt gas-to-electric power project at the Bowerman Landfill at Irvine in the USA, including a signed twenty-year, power purchase agreement with the City of Anaheim, and intends to develop the project over the next eighteen months.

The group has acquired and is involved in the development of several properties all around the country:

- Sabido is building studios and offices to house its operations in Cape Town. They should be complete by 2015 financial year-end;
- Seardel Properties has completed its Mobeni factories and is currently developing Reeds House in Salt River, Cape Town;
- HCI Properties has acquired industrial property in Congela, Durban and Heartland in Modderfontein which it will develop with partners. In addition, the first phase of Monte Circle will be commenced shortly. The group is likewise developing shopping centres at Lynnwood, Tshwane; Blue Hills, Midrand; and Kings Road, Sea Point in partnership with various developers. These are in addition to the Kalahari Village Mall in Upington which is now complete and The Point in Sea Point, which will be completed in November. HCI Properties likewise has purchased the former offices of the Rand Daily Mail

in the Johannesburg city centre for redevelopment as inner-city accommodation.

### *New businesses*

HCI has invested, or has committed to invest, funds in several businesses in the energy sector which has emerged as an exciting new area for the Group.

We have taken a small stake in a concentrated solar energy project in Upington in partnership with the PIC, IDC and local and international developers. The project won a Department of Energy tender to provide them with solar power on a twenty-year contract. These projects cost several billion rand to construct but appear lucrative relative to the risk, apart from being important infrastructure for the country to develop. We hope that this project will reach financial close in the next month or so.

Together with similar shareholders we have bid on a second such project which awaits adjudication.

We have also recently invested in a minority stake in a UK-based company, Impact Oil and Gas, which has acquired exploration rights in several offshore basins around the coast of South Africa, Namibia and Gabon. The company will do seismic studies in these reserves with a view to attracting oil majors to join us in far more capital intensive well drilling, should this appear practicable once the seismic studies are to hand.

### *Turnaround and problematic businesses*

We have finally disposed of Seardel's clothing manufacturing arm. We are relieved that jobs, which would unquestionably have been lost had this sale not gone ahead, have been given a new lease on life. Seardel's



announcement of losses of R160m in this division include both operational losses and the impairment of assets on the disposal. While it was by no means an inexpensive exit, we believe it was necessary to walk the last mile to be part of a solution aimed at preserving as many of these manufacturing jobs as is possible.

Formex continues slowly to trade its way out of its difficulties and we are comfortable that its primary pressing business is stable.

OCP in Australia has likewise improved encouragingly over the last period. Its overheads have been significantly reduced and the efficiency of collection of its books of debt in its joint venture, Baycorp, have been well above budgets which we had felt would be tough to meet. The business remains squeezed, however, by the extraordinary prices being offered for the acquisition of debt collection books. We are anxious that these levels are unsustainable for the industry.

#### *Sustainability*

HCI has continued to play a constructive role in its CSI work.

Mentored bursaries remained the largest single project but several other projects of our Foundation have showed great progress. The Foundations' work with Litha Primary School, in particular, was rewarded with that school winning several awards from the Department of Education for showing the most progress in the region.

Our BEE rating remained at level 2 which is one of the highest of any of the listed companies on the JSE. We again participated in the Carbon Disclosure Project reporting on carbon emissions of the group and are pleased that the subsidiaries reduced the total scope 1 and 2 emissions of the Group by 9% year-on-year.

#### *The Board*

Our Board continued to function well. Yunis Shaik commenced work in the group on a full-time basis with effect from 19 March 2014 and his role as lead independent director was taken over by Elias Mphande. Yunis was likewise replaced as chairperson of the audit committee by a new appointee to the Board, Les Maasdorp. A further non-executive appointment was made, drawing Rachel Watson on to the board. Both these individuals have contributed well with the Group in the past and have quickly integrated themselves into the work of the Board. Les was previously involved as a director of Johnnic after that company was taken over by HCI and prior to its delisting. Rachel serves on the board of Seardel. They have useful skills, Les coming from an accounting background and Rachel running a community radio station. They have likewise enjoyed substantial associations with our key shareholder, SACTWU, in the past, making it easy for them to enjoy a wide measure of shareholder support in their work. We welcome them both to the board.

#### *Appreciation*

Finally, we would like to express our appreciation to the many people within the Group who have worked incredibly hard in its various subsidiaries, generating new ideas, tackling innovation and seeking out new opportunities for the growth and development of the Group. It is with considerable pride that we report that we believe the Group, in the markedly more decentralised format in which it has been growing, has developed a strong team of self-motivated entrepreneurs who not only run their pieces of our business with real care, drive and dedication, but feel sufficiently integrated into the group as a whole to contribute thoughts, ideas, time and innovation to promote the Group's success outside their own areas of responsibility. It has been a great pleasure to be at the centre of such a team.

