# TSOGO SUN GAMING


## TSOGO SUN GAMING LIMITED ("TSOGO GAMING")

**Tsogo Gaming Highlights for the year:**

**Continuing operations**

- Income R11,7 billion, up 1%
- Ebitdar R4,0 billion, down 1%
- Adjusted HEPS 134,5 cents, down 14%

Tsogo Sun Group ("Tsogo Group") unbundled its entire holding in Tsogo Sun Hotels Limited to its shareholders on 14 June 2019 by way of a distribution in specie. The effective disposal date when the board approved the distribution was on 23 May 2019.The commentary that follows thus relates to the gaming business remaining in the group.

**Trading:**

The spread of the Covid-19 virus and government's subsequent regulatory restrictions negatively impacted the business which became directly evident following the President's speech on the 15th March and deteriorated significantly with sites operating with limited capacity due to increasing regulatory restrictions. As a result of the lockdown measures announced on 23 March 2020 all sites were closed to the public by 25 March 2020 to allow for the properties to be secured.

Total income for the year of R11.7 billion ended only 1% above the prior year mainly as a result of the impact of regulatory restrictions implemented in response to the Covid-19 pandemic during March 2020 which reduced annual income growth by approximately 3%. Operating expenses increased by only 2% on the prior period mainly due to the focus on reducing casino and head office overheads and

Suncoast Casino


Blackrock Casino


Silverstar Casino

the reduced trading during March 2020. Ebitdar at R4.0 billion was 1% down on the prior year.

Impairment losses of R9.2 billion were recognised on casino licences during the year, which is a result of the adjusting post-balance sheet event of the extended lockdown of the business and the risk-based strategy implemented by government without certainty for our sector.

**Casinos:**

Total income for the casino business decreased 1% on the prior year to R8.9 billion. Net casino gaming win reduced by 2% on the prior year as a result of the regulatory restrictions and lockdown in March. The results of casinos were impacted the most in the group with the restrictive trading and lockdown, as a result of the significant fixed cost of the casino complexes.

The operating structure at head office was streamlined, cost saving initiatives implemented and marketing processes restructured. The business is currently continuing with the processes to further improve the cost base for long-term benefit.

**Bingo:**

Galaxy Bingo remains a market leader in its sector, growing total income for the year by 9% to R933 million (including the negative impact of restrictive trading and lockdown at the end of March) and Ebitdar by 21% to R287 million. As at 31 March 2020, the Bingo division operated and managed 21 bingo sites. The bingo division continued to invest nationally on new sites, expansions and improvements.


Montecasino


Suncoast Casino

**LPMs:**

Operating expenses includes a R14 million benefit as a result of the adoption of IFRS 16. Property rentals at R25 million are 81% below the prior year due to a R108 million effect which is mainly as a result of the adoption of IFRS 16.

Amortisation and depreciation at R881 million is 19% up on the prior year due mainly to the capital spend at Suncoast Casino during the prior year, and an additional cost of R60 million due to the adoption of IFRS 16.

Net finance costs of R1.2 billion are 53% above the prior year due to the increase in debt resulting from the transfer during the prior year of a portion of debt from the hotel division to the gaming division, the Suncoast development, a transfer from the cash flow hedge reserve on refinancing the group's debt of R136 million and an additional cost of R44 million due to the adoption of IFRS 16.

**Adjusted headline earnings:**

Adjusted headline earnings for the year at R1.3 billion ended 32% below the prior year after the additional interest and depreciation cost. Post adjustment for a transfer from the cash flow hedge reserve on refinancing the group's debt of R136 million, continuing operations adjusted headline earnings for the year at R1.4 billion ended 14% below the prior year with a similar reduction in adjusted HEPS to 134.5 cents per share.

**Prospects:**

The hospitality and tourism industries have been impacted the most as a result of the Covid-19 pandemic. Following three months of closure the group commenced trading again, albeit under restrictions. The group is currently faced with the uncertainty of what restrictions will remain in place and for how long and the length of time it will take for trading to ramp up again. It has however developed a robust strategy of enhanced hygiene and social distancing which enables it to operate successfully with its loyal customer base.

The group intends to prioritise surplus cash to reduce the level of debt . The lenders have agreed to the waiving of financial covenants for the September 2020 measurement period and deferring interest payments for three quarters of R0.7 billion to provide the group with additional liquidity.

*Tsogo Gaming is separately listed on the JSE Securities Exchange, and more information can be found on the Group at www.tsogosun.com/gaming*

TSOGO SUN
HOTELS

TSOGO SUN HOTELS
49%

TSOGO SUN
HOTEL OPERATIONS
100%

Hospitality Property Fund
59%


*Protea Victoria Junction*

## TSOGO SUN HOTELS LIMITED ("TSOGO HOTELS")

**Tsogo Sun Hotels highlights for the year:**

- Income R4,5 billion, up 2%
- Ebitdar R1,4 billion, down 9%
- Adjusted HEPS 126,2 cents, down 31%

Trading during the first nine months of the financial year was impacted by the depressed local macro-economic environment with demand by corporate and leisure groups as well as the transient traveller showing little sign of recovery. The performance of Tsogo Hotel's offshore division was equally disappointing due to declining corporate and leisure activity in Maputo, government austerity measures in Tanzania, a reduction in South African travel to Nigeria following the xenophobic attacks as well as a significant retraction in business confidence in Lusaka following proposed amendments to tax legislation months of the year. Covid-19 had a marked impact on the fourth quarter trading with international demand retracting as early as the last week of February 2020. The initial international travel regulations imposed by the President on 15 March 2020 and finally, the total ban on inter-provincial travel announced on 23 March 2020 as part of the nationwide lockdown resulted in a material reduction in revenues for the month of March, which is normally a peak activity month for the group. The Tsogo Hotel's entire portfolio in South Africa, Africa and the Seychelles has been deactivated with the exception of those hotels designated as quarantine facilities or, as accommodation for essential service providers and persons awaiting repatriation.

Total income for the year of R4.5 billion (2019: R4.4 billion) ended 2% above the prior year with a 2% growth in hotel rooms' revenue and a 7% growth in food and beverage revenue offset by a 7% reduction in property rental income and a 7% reduction in other income. Revenues were favourably impacted in the third quarter following the successful conclusion of the fixed and variable leases over the three Sandton hotels with effect from 1 November 2019. These include the InterContinental Sandton Towers, Sandton Sun and Garden Court Sandton City, which together total 1 001 rooms and make up 5% of the group's total rooms' portfolio. Excluding the impact of the Sandton hotels, revenue for the Tsogo Hotel's base portfolio declined by 3% for the year ended 31 March 2020.

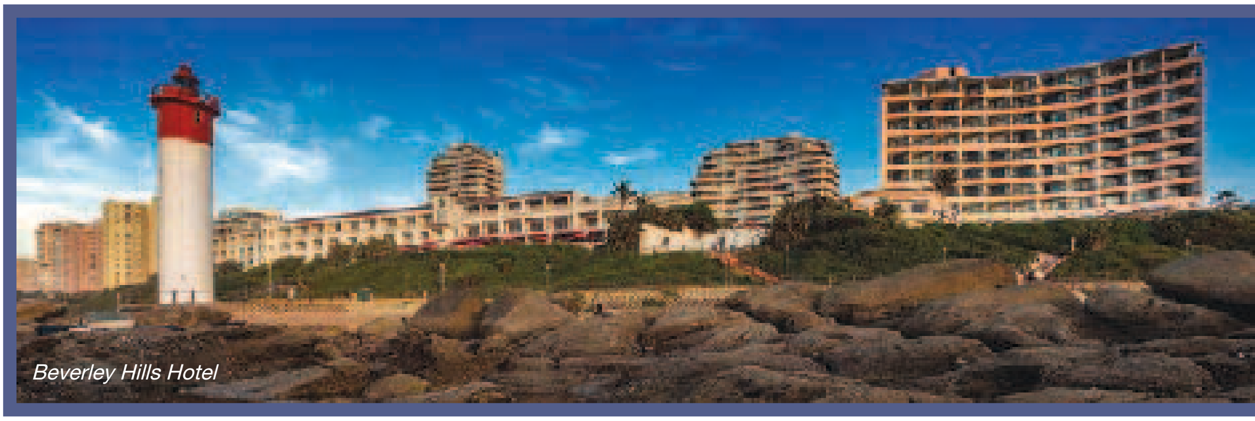
Despite strict cost controls during the year to counteract the above-inflationary increases in administered costs

Sandton Sun

The Cullinan

including property rates and utilities, the shortfall in revenue as a result of the decline in demand which was further exacerbated by the Covid-19 pandemic has meant that earnings before interest, income tax, depreciation, amortisation, property rentals, long-term incentives and exceptional items ("Ebitdar") of R1.4 billion (2019: R1.5 billion) ended 9% down on the prior year. Excluding the impact of the Sandton hotels, Ebitdar for the Tsogo Hotel's base portfolio declined by 12% for the year ended 31 March 2020. The overall Tsogo Hotel Ebitdar margin of 30% has declined by 4 percentage points ("pp") from the prior year.

Exceptional losses for the year relate mainly to fair value losses on the revaluation of externally managed investment properties in Hospitality Property Fund ("HPF") of R888 million (2019: R445 million), property, plant and equipment impairments of hotels in South Africa and offshore totalling R822 million (2019: R94 million), goodwill impairments of R810 million (2019: Rnil), impairments of R33 million (2019: Rnil) on the group's hotel brands, restructuring costs of R40 million (2019: R8 million) which includes the termination benefits of R8 million for the closure of Southern Sun Nairobi and retrenchment costs relating to the unbundling, as well as the impairment of the Tsogo Hotels's investment in RBH Hotels UK Limited of



Beverley Hills Hotel

*Southern Sun*


*Palazzo Hotel*

R17 million (2019: Rnil). The majority of the quantum of these impairments are due to management's assessment of the negative impact of Covid-19 on forecast cash flows generated by the underlying hotels for the financial years ending March 2021 and March 2022 as well as volatility in the bond market and increased in-country risk assessments that have had a material impact on discount rates across the portfolio. In South Africa in particular, the risk posed by the Covid-19 pandemic compounded by the ratings downgrade, saw the 10Y bond yield increasing by 1.9% from 31 March 2019 (8.61%) to 31 March 2020 (10.51%).

Tsogo Hotels adjusted headline earnings for the year at R278 million (2019: R403 million) ended 31% down on the prior pro forma year. The adjustments to the current year includes the reversal of the post-tax and non-controlling interest impacts of the exceptional losses noted above. The number of shares in issue remained flat on the prior comparative pro forma year and the resultant adjusted headline earnings per share is 31% down on the prior pro forma year at 26.2 cents (2019: 37.9 cents).

As at 31 March 2020, Tsogo Hotels has net cash and cash equivalents of R722 million (2019: R212 million). Tsogo Hotels has R4.0 billion (2019: R3.2 billion) of interest-bearing debt (excluding capitalised lease liabilities) and access to sufficient undrawn short-term facilities to meet its obligations as they become due and to counteract the expected losses that may result from the Covid-19 impact on the Tsogo Hotel's operations in the next financial year.

**Prospects:**

This financial year has been one of highs, with the group celebrating its 50th anniversary and the separate listing of Tsogo Sun Hotels on the Johannesburg Stock Exchange. A short nine months later, Tsogo Hotels experienced the low of having to deactivate the vast majority of its hotels. While Tsogo Hotels supports government's efforts to safeguard the health of citizens, the prolonged lockdown has had and will continue to have a devastating impact on the South African economy in general and the southern African travel and tourism industry and its employees in particular. No industry can survive extended periods without revenue. Tsogo Hotels welcomes the recent announcements by President Ramaphosa and appeal to government to continue to open the economy as quickly as possible, with due regard for safety.

*Tsogo Sun Hotels is separately listed on the JSE Securities Exchange, and more information can be found on the group at www.tsogosun.com*

HPL&R

Hosken Passenger Logistics & Rail

GABS
100%

ElJoSa
76%

Sibanye
33.3%

Table Bay
Rapid Transit
50%


## HOSKEN PASSENGER LOGISTICS AND RAIL ("HPL&R")

**www.hplr.co.za**

For the review period, the performance of the HPL&R group was anchored in the steady performance of its major subsidiary, Golden Arrow Bus Services ("GABS") despite a constrained macroeconomic environment and volatile operating conditions.

Notwithstanding the effects of a stagnant economy, overall passenger volumes showed a relatively marginal decline which in part could be ascribed to the uptake of commuters due to the continued dysfunctionality of the rail service and the termination of the N2 Express MyCiTi service.

The HPL&R group revenue reflected a 15.1% increase on the prior year and operating costs increased by 14.2%, resulting in an 18.6% increase in Operating profit (EBITDA).

The HPL&R group concluded the acquisition of the remaining shares in both Sibanye Bus Services Proprietary Limited ("Sibanye") and Table Bay Area Rapid Transport Proprietary Limited ("TBRT") on 1 April 2019 and 31 July 2019 respectively, acquiring an additional 33.33% of Sibanye on each of these dates and an additional 24.97% in TBRT on each of these dates.

The demand for reliable road-based passenger public transport services in a spatial environment typified by low population densities and urban sprawl continues to be the basis upon which the group's sustainability and organic growth potential is grounded.

**Golden Arrow Bus Services ("GABS"):**

GABS operates a contract for the Western Cape Provincial Department of Transport for the provision of commuter bus services across the Cape Metropole. It has a fleet of 1156 buses.

During the reporting period, GABS posted a commendable 13% increase in EBITDA bolstered by a 9% rise in revenue and the vigilant controlling of costs, which nominally rose by 8%. Diesel and manpower remain the major cost elements with the former increasing by 7% and the latter impacted by an 8% wage settlement during the financial year.

As the principal subsidiary of the HPL&R group, GABS harnessed its century and a half's operational experience to produce a steady all-round performance through the implementation of stringent efficiency interventions in the operations, technical and support divisions of the company.

Operationally, the company maintained a creditable 96% efficiency ratio of on-time first trip departures, with the data intelligence derived from the Automatic Fare Collection system providing a sound base for the creative scheduling of trips and optimal fleet utilisation.

This was complimented by a rigorous focus on the reduction of overtime costs, the cutting of non-revenue earning kilometres and executing a more productive schedule throughout the year.

The application to be exempted from applying the South African Road Passenger Bargaining Council ("SARPBAC") wage settlement on an across the board basis, will be finalised during the course of 2020 and a positive outcome

of this litigation is set to mitigate the huge wage differentials which currently besets the industry.

Addressing the full impact of Covid-19 on mobility in general and bus travel in particular will be the main focus of the management team during the next financial year. The trimming of overheads to match the revenue base and engaging contracting authorities with the view to amending operating contracts to adequately deal with the myriad uncertainties which confront the provision of subsidised bus services, are among the strategies that will be pursued.

**Table Bay Rapid Area Transit ("TBRT"):**

TBRT is a vehicle operating company for the City of Cape Town's MyCiTi brand. It operates the trunk service along the Atlantic corridor from Table View to the CBD, as well as services from the CBD to Sea Point and Camps Bay and has a fleet of 78 vehicles.

Notwithstanding two wildcat strikes toward the end of 2019, the Vehicle Operating Company ("VOC") in the MyCiTi network increased its revenue by 18% and combined with vigilant compliance to the operating contract, succeeded in recording an increase in EBITDA of 16%.

**Sibanye Bus Services ("Sibanye"):**

Sibanye predominantly operates out of Atlantis with a fleet of 61 buses.

Although revenue increased marginally by 5%, Sibanye achieved a creditable increase in EBITDA of 15% which can be ascribed to a 4% decrease in overall costs as a result of lower repairs and maintenance expenses due to the recapitalisation of a third of its fleet during the last financial year.

Plans are afoot to achieve higher vehicle utilisation by introducing more runoff trips in the peak period and developing new travel products that match the profile and travel behaviour of the traditional customer base.

**N2 Express:**

Due to litigation pending in the Cape High Court, the N2 Express contract that expired on 31 May 2019 was not renewed.

**Eljosa Travel and Tours ("Eljosa"):**

ElJoSa Travel and Tours operates across Cape Town and parts of Gauteng in the school transport and luxury tours market segment.

As a result of the company expanding its fleet by an additional six vehicles during the reporting period it was able to grow its revenue by 20%. However, despite this growth in revenue the company posted a 48% decrease in EBITDA largely due to high repair and maintenance costs on its older vehicles, increased manpower related expenses, a declining luxury coach and tour market and a contraction of its business from March 2020 due to the Covid-19 lockdown regulations

ElJosa is poised to realign its market offering through proactively servicing its traditional customer base and taking advantage of opportunities that arise from rapidly changing inter-city and luxury coach business models.

*Hosken Passenger Logistics and Rail is separately listed on the JSE Securities Exchange, and more information can be found on the group at www.hplr.co.za*

**eMEDIA HOLDINGS**

**www.emediaholdings.co.za**

Congratulations are in order for everyone in the eMedia group of companies, who helped the group achieve outstanding results in a very tough economic climate.

An increase of 98.6% year-on-year from a restated profit of R118.7m to an adjusted R235.7m must be considered as formidable. The table below is a bird's eye view of the salient numbers.

| | March 2020 | March 2019 |
|---|---|---|
| Revenue | **R2 506m** | R2 356m |
| Adjusted profit from continuing operations | **R235,7m** | R118,7m |
| EBITDA | **R436m** | R323m |
| Headline Earnings | **R147,8m** | R59,7m |

The results of the continued operations year-on-year could be termed great progress and in keeping with the congratulations offered to everyone concerned.

Due to the impact of the Covid-19 pandemic and its impact on the economy.

Business has evolved over time from a one-channel business to a 10-channel business and has truly become a bouquet of offerings best understood in the following categories:

**Content – Entertainment Channels:**

Under this sector, the group now has eight well-entrenched entertainment channels, namely e.tv, eExtra, eMovies, eMovies Extra, eToonz, eReality, eRewind and eAfrica.

The highlight of these channels includes:

- e.tv's consistent market share year-on-year, with the local daily soaps which have held their ground. Imbewu – The Seed being the most-watched offering on all TV between 21.30 and 22.00 on weekdays. e.tv's also looking forward to introducing a brand new daily soap to starting on 7 September 2020. Watch the press for details.
- eExtra, eMovie and eMovie Extra are consistently in the top five of the country's satellite channels. These rankings assist the group in providing six of the top 10 satellite channels in the country consistently.

The search for more channels continues on a daily basis. Although there are many on offer, it is only those that are discerning in their content and commercially-viable that will be considered.

**Content – News and Sport:**

- As is well-known, the group's news offering, eNCA is arguably the best, but certainly the most-watched news channel in South Africa.

  eNCA is exclusive to DStv and is such the leading channel in the LSM 8-10 category. It is the preferred choice of "decision-makers" and is recognised as a leading news brand. The presenter line-up, the format and the content are constantly managed so as to make eNCA as relevant as possible.

  As it is with most news channels around the world, there are opinions both ways about eNCA. eNCA works hard to find the balance and in doing so relies on the maxim that alludes to the following, "we should always be the subject of dinnertime discussions, good or bad – it is when the talking stops that we should be concerned".
- A news and sports channel was launched in this fiscal


under review, which includes a live EPL and Bundesliga football match over the weekends. Venturing into live sport is new to the group and has worked out successfully. More live sport fixtures are being sourced and will be introduced in the near future.

This sport is housed in what is the group's second news channel which has a 4-hour live news telecast from Cape Town on the Openview platform. This news broadcast facility is also responsible for the news on the e.tv analogue transmission. The main 8pm news on e.tv is live from this facility in Cape Town, and is the most-watched news in English in South Africa.

**Platforms – Openview/ Openview Plus/ Openview Connect:**

- Openview, eMedia's free-to-air satellite offering is now in more than 2 million homes. The sales of Openview decoders is consistently at an average of one thousand a day. This was impacted negatively by the first part of the lockdown, but has now recovered to its previous daily averages.

  Although the rand/dollar exchange rate impacted on the price of the decoder, the daily sales numbers have been resilient, and are slightly better than at the old price. This speaks directly to the fact that the content is received well and that South Africans are warming up to the offering. The group expects to be at 3 million boxes by March 2022.
- Openview Plus - In preparation and planning for additional platform choices for our viewers, the eMedia content is also placed on the respective website and OTT services such as VIU. The anticipated advertising revenue expected in the future from such ventures will accrue to the group. By October 2020, the group will launch its own OTT offering called Openview Plus. Work on this offering is happening in earnest as this report is published.
- Openview Connect will be an advancement in the technology-based offerings of the group. Openview Connect is set to launch in the next few months. The target market for this offering is homes in South Africa that have no access to fibre as yet.

There are other endeavours in the technology space that are on the table and are receiving daily attention from the most senior persons in the group. In due course, more will be revealed on the projects on hand.

**Subsidiaries:**

The group's subsidiaries which include YFM, Sasani Africa, Moonlighting, Media Film Services and The Refinery Cape Town have all performed exceptionally well for the period under review.

The impact of Covid-19 and the lockdown will probably see a slowdown in business for subsidiaries especially Moonlighting and Media Film Services. Management of the respective businesses are confident that through cost savings and keeping other fiduciary measures in check, the year will turn out fine.

In conclusion, the eMedia Holdings business has had a great two years and was all set for another fantastic year. Covid-19 and its global impact will have some effect on the financials of the present fiscal, but management is confident that a substantial profit will be returned to the shareholders.

*eMedia Holdings is separately listed on the JSE Securities Exchange, and more information can be found on the group at www.emediaholdings.co.za*

DENEB
INVESTMENTS LIMITED



**DENEB INVESTMENTS LIMITED [“Deneb”]**

**www.deneb.co.za**

Deneb’s focus over the past financial year was capital preservation. In practice this meant divesting from businesses that had no realistic prospect of meeting return on capital hurdles and optimising the capital structures of continuing businesses. Consequently, although the year was poor from an earnings perspective with Deneb delivering a total comprehensive loss of R125 million, cash generation was strong with Deneb generating R399 million from operating activities.

In analysing the results for the year, the following points are worthy of consideration:

- The results for the continuing operations to March 2020 have been negatively affected by the Covid-19 pandemic. The best estimate is that the slow down and ultimate shutdown in late March 2020 reduced revenue by R60 million and reduced operating profit by some R20 million.
- Despite the prevailing economic headwinds, including the negative impact of electricity load shedding on the manufacturing businesses, Deneb managed to improve operating margins and increase its core operating profit even though turnover was lower.
- Deneb valued its properties down by R41 million, R28 million on investment properties and R13 million on owner occupied properties. This downward valuation reflects the estimate of the consequence of the economic fallout due to the Covid-19 virus on Deneb’s property portfolio. The property portfolio is revalued each year by an independent property valuer. This valuation was completed shortly before year-end and would have resulted in an upwards revaluation of R40 million, R37 million on investment properties and R3 million on owner occupied properties. However, the valuation did not consider the effects of the Covid-19 virus.
- Deneb impaired certain intangible assets and goodwill resulting in a R37 million charge to the income statement. These impairments relate to businesses acquired in the toy industry and given the uncertain economic outlook it was felt appropriate to make these impairments.
- Discontinuing operations delivered a loss of R131 million. Deneb exited 4 businesses that it did not believe could deliver on its capital return hurdles. Two businesses were sold as going concerns (Winelands Textiles and First Factory Stores) and Brand ID was discontinued by financial year-end. The fourth business (Frame Knitting) will cease operations in July and the disposal process is anticipated to be completed by the next financial year-end. There will be some residual costs associated with the disposal of Frame Knitting to be incurred in the new financial year. However, the significant cost items including impairments and provisions for retrenchment costs have been provided for in the year under review. Even though these exits are earnings negative, they are cash positive and exiting these businesses is one of the reasons why cash generation was strong.





**Anticipated effects of the Covid-19 virus and outlook:**

The major impact of the Covid-19 virus occurred after financial year-end. The severe lock-down restrictions in April meant that Deneb operated at around 10% capacity, which was largely centred around supplying essential service providers. The move to level 4 restrictions in May allowed the manufacturing operations and stationery businesses to open on a restricted basis and Deneb operated at around 40% capacity. The easing to level 3 in June meant that all of Deneb's businesses could operate subject to restrictions implemented to ensure the health and well-being of employees.

The property portfolio largely consists of low cost "B" grade industrial properties. Rental collections for April and May 2020 were satisfactory with 84% of rentals having been collected and 10% deferred with agreement. June collections proved to be more challenging but have ended in line with the previous two months. We have begun processes to collect the outstanding portion and we are expectant that these will be recovered.

Deneb is steeling itself for a very difficult year ahead as many role players in the economy come under increasing pressure. Accordingly, variable expenditure has been cut wherever possible and fixed cost infrastructures are all under review. The short-term focus will be on cash preservation.

*Deneb Investments Limited is separately listed on the JSE Securities Exchange, and more information can be found at www.deneb.co.za*

HCI Coal (Pty) Ltd

*Palesa Colliery*

**HCI COAL PROPRIETARY LIMITED ["HCI COAL"]**

**www.hcicoal.co.za**

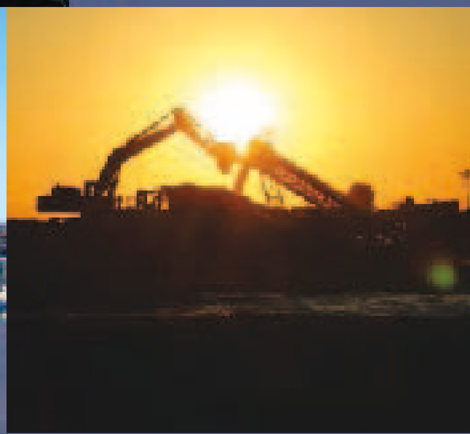
While the year under review has been challenging in a number of respects, HCI Coal has nonetheless achieved satisfactory results. Challenges included community unrest at both our operations, Eskom's chronic under off-take performance, armed robberies, unusually high rainfall and volatility in the international thermal coal price. Most recently, we have seen the destabilising effects of the coronavirus outbreak.

Revenue for the year increased by R159 million to R1.63 billion as the increased volumes sold by Palesa Colliery partially offset the decrease in the export thermal coal price. EBITDA however decreased by 35% to R248 million (2019: R385 million) for the year.

The company's safety record continued its positive trajectory trend. During the year, HCI Coal experienced no loss of life incidents nor any loss time injuries at any of its operations. The LTIFR (Lost Time Injury Frequency Rate) decreased by 18% to 0.082 (FY 2019:0.10). Our safety programmes are informed through staff engagement and robust participation across our sites as we strive to raise our safety performance to a zero-harm level.

Palesa Colliery sales volumes increased by 24% up from 2 206 102 tons sold in the previous year to 2 729 276 tons despite Eskom's failure to timeously renew contracts of its transporters. During the first quarter of this year a new crushing plant with a feed capacity of 200 000 tons per month was successfully commissioned. The colliery has had discussions with Eskom to re-evaluate the newly signed 6 year off-take agreement which could possibly increase the supply of coal to Eskom.

Mbali Colliery Sales volumes decreased by 45% from 915 231 tons sold in the previous year to 503 673 tons as production decreased by 35% to 873 479t (2019:1 344 027t) mainly due to the mine approaching its end of its life and operating on a reduced shift basis. Revenue decreased by 58% as export sales price achieved were 29% lower than the prior year. Notwithstanding the above Mbali colliery managed to meet its contractual obligations for this financial year. In response to the lower export price, Mbali will supply sized A Grade RB1 coal to the local market and continue to supply its middling product to Eskom until it reaches its end of life of mine.



| | Palesa Colliery Tons | Mbali Colliery Tons | Total Tons |
|---|---|---|---|
| Mineral reserve: proven | 60 182 814 | 1 376 358 | 61 559 172 |
| Mineral reserve: probable | 17 551 309 | - | 17 551 309 |
| | **77 734 123** | **1 376 358** | **79 110 481** |

PLATINUM GROUP METALS

**PLATINUM GROUP METALS LIMITED**

**www.platinumgroupmetals.net**

Platinum Group Metals Limited ("Platinum Group" or "PTM") is a mineral exploration and development company focussed on palladium in South Africa.

PTM is currently advancing the Waterberg palladium, platinum, gold, and rhodium ("PGMs") project, which is being jointly developed by PTM, Japanese state-owned enterprise Japan, Oil, Gas and Metals National Corporation, Hanwa Corporation and Impala Platinum Holdings Limited ("Implats"), one of the world's largest producers of platinum. HCI currently holds a 31.6% stake in PTM. A definitive feasibility study for the Waterberg Project was completed in September 2019 and the joint venture approved the declaration of a large 19.5 million ounce PGM reserve in December 2019. Implats is currently funding an implementation budget on the project and a mining right application is in process. Located in Limpopo, on the northern limb of the Bushveld Complex, Waterberg has the potential to be amongst the lowest-cost large scale PGM mines in the world, with a 45-year projected mine life.

*Platinum Group is listed as PLG on the NYSE.A (New York Stock Exchange) and PTM on the TSX (Toronto Stock Exchange).*

HCI Properties

The Palms


Shell House

### HCI PROPERTIES ("HCIP")

**www.hciproperties.co.za**

As with many companies across the group, HCI Properties have had a year of ups and downs. The team has been selective in pursuing new developments and have shifted its focus towards completing ongoing projects, enhancing the existing asset base and profitably exiting mature investments. The portfolio has continued to deliver attractive earnings growth during a prolonged suppression of the South African economy. Diversification by property type, geography and occupier, coupled with a focused management team, have been some of the key components driving performance.

HCIP's revenue decreased by 5% for the period under review, which was largely due to pressure on the convention business. Property rental income increased by 16% which can be attributed to annual escalations and the completion of inner-city, industrial and offices stock that have now traded for a full financial year. EBITDA increased by 10%, reflecting the disproportionate growth of non-controllable operating costs in the current environment. Profit before tax increased by 30% which can largely be ascribed to proceeds from the sale of an associate company and to a lesser extent certain upward fair value adjustments. Headline earnings increased by 26% to R85.3million [2019: R67.8 million] which was predominantly due to the uptick in income from completed developments now being included for the full reporting period.

### COMPLETED DEVELOPMENTS

**Retail:**

Retailers continue to face subdued trading conditions as the disposable income of the average South African consumer diminishes. The HCI team have worked hard to invest in dominant property offerings that have, and continue to achieve, trading density growth in a relatively benign trading environment.

To remain competitive, HCIP continues to focus on delivering to its tenants and shoppers convenient, safe, and immaculately maintained properties. Average vacancies have remained at 2% across the retail portfolio.

The two regional malls, Kalahari Village Mall in Upington and Whale Coast Mall in Hermanus, remain fully let. Renewal negotiations continue to take up a lot of time as tenants attempt to reduce their operating costs by means of rental reversions.

*Kings - Sea Point*


*Gallagher Estate*

**Offices:**

The year under review saw the completion of a 4th building at our Monte Circle precinct, adding an additional 5 476m² of GLA. Vacancies at Monte Circle have increased from 8% in the prior year to 17%, due to the new supply brought about by Building D.

Renewals are challenging, mainly due to the high vacancies in the office property market and tenants looking to reduce their cost of occupation. Tenants can shop around come renewal time, which they use to their advantage when renegotiating leases.

An increased demand for smaller workspaces; existing tenants looking to downsize and new enquiries for smaller offices, has been observed. To reduce vacancies at Monte Circle, larger spaces have been subdivided and offered as Flexi Suites.

**Industrial:**

Industrial remains a strong performer with the HCIP facilities fully let.

Westlake Phase 2 has been completed and is occupied by DDV Seed, adding 7 190m² of GLA to our industrial portfolio.

The Sydney Road precinct in Durban, KZN, soldiers on with no changes in tenant mix but has seen the expansion of existing users into previously vacant space.

**Mixed Use:**

The Point Building is a robust property, boasting zero vacancies for the year under review. The Palms continues to mature and establish itself in the Woodstock node, however, pressure on small businesses has resulted in a vacancy of 21%.

**Inner City Housing and Student Accommodation:**

Over the past few years, a portfolio of inner-city properties which provide affordable rental accommodation and retail space has been developed. Although affordable, the rental units are of a high quality and offer significant amenities including underground parking, play areas, homework rooms, exercise facilities, wifi and in-house laundry facilities. The units are well designed, offering attractive and varied apartments. HCIP invests heavily in security, cleaning and maintenance.

The development of HCIP's third inner city building during the course of the year was completed. Solly Sachs House, located on the corner of Commissioner and Eloff Streets in central Johannesburg comprises 300 residential units, two floors of offices and two floors

*Whalecoast Mall*

of retail. Office tenants include the SA Clothing and Textile Workers' Union and the Bargaining Council for the Clothing and Textile industry. Retail tenants include Shoprite, Clicks, Torga Optical, Cash Crusaders and Osbro. Demand for the retail and residential components of the building has been strong.

HCIP's two other buildings, Rand Daily Mail House and Shell House continued to perform satisfactorily.

The completion of Solly Sachs House brings HCIP's residential portfolio to over 1 000 units and adds to an already significant inner city retail presence. In light of this, HCIP decided to insource the management of its buildings. A wholly owned company, Live the City, was established to manage this portfolio and an experienced team has been appointed. This will enable HCIP to optimise the management of the buildings and to ensure that vacancies are kept as low as possible.

HCIP has also embarked on building its first student residence in partnership with Swish properties, an experienced student operator. The residence is located in Auckland Park near to the University of Johannesburg. The building will open in time for the 2022 academic year.

**Gallagher Convention Centre:**

The 2020 financial year has been difficult for Gallagher Convention Centre as there was a noticeable decrease in the size and frequency of corporate events. The exhibition business showed a measurable uptick and corporate bookings for the 2021 financial year. Covid-19 has obviously been a major upset bringing the business to an abrupt halt at the end of March 2020. The team are looking at new ways to generate income, evolve and reposition themselves to bounce back once restrictions lift.

**Residential:**

HCIP, together with the Berman Brothers, completed the Kings residential building in the up-market suburb of Sea Point. The development has sold out with majority of the units to transfer post financial year-end.

**NEW DEVELOPMENTS**

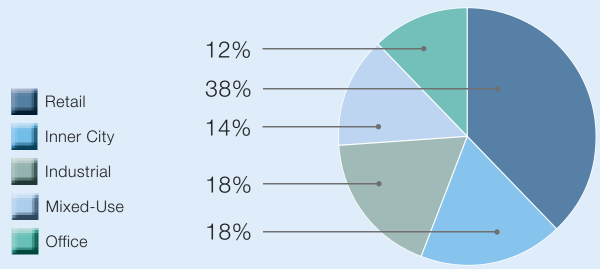
Two spec houses in the Steenberg Green residential development are near completion and HCIP hopes to formally launch this unique scheme in early August 2020.

HCIP and Swish Properties are developing the new Cape Town head office for global marketing conglomerate Dentsu Aegis. The property is in Woodstock and will be completed early next year.

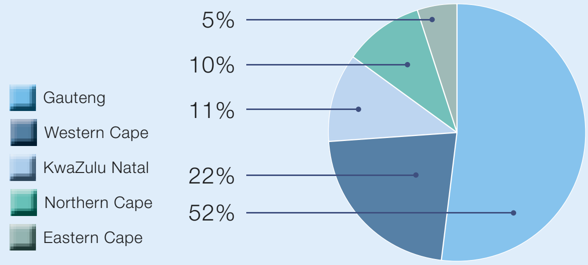
HCIP applied for departures on the Fulcrum development in Sea Point. It met all town council requirements and by-laws but management were disappointed to be let down, not by city officials, but rather politicians at a Mayco level. The team remains committed to completing a successful development that has a positive impact on the node.

| KPI | Industrial | Inner city | Office | Retail | Mixed-Use |
|---|---|---|---|---|---|
| Gross Letting Area ["GLA"] ($m^2$) | 53 905 | 56 368 | 37 800 | 116 751 | 44 207 |
| No. of units | - | 1 078 | - | - | - |
| Revenue (R'000) | 52 830 662 | 75 456 000 | 43 421 762 | 238 219 000 | 98 254 000 |
| Vacancies by % | 0% | 6% | 11% | 2% | 10% |
| Vacancies by GLA | 266 | 3 241 | 4 311 | 2 217 | 4 203 |
| Weighted average unexpired lease term ("WAULT") (years) | 5 | 1 | 3 | 4 | 3 |

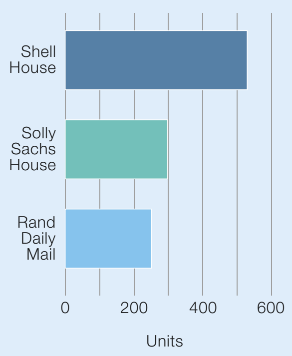
HCI Properties : GLA (by Property Type)



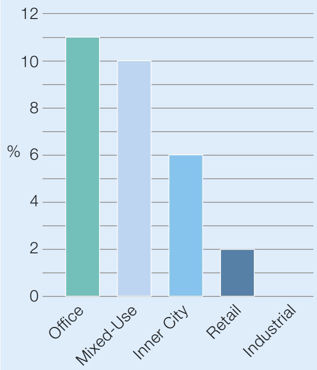

HCI Properties : GLA (by Region)



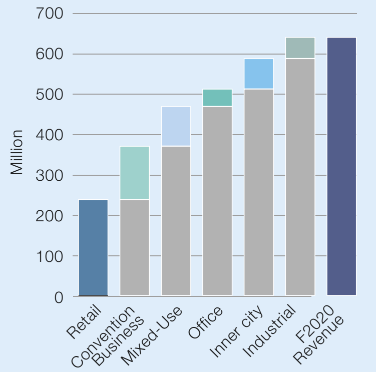

INNER CITY Residential Units



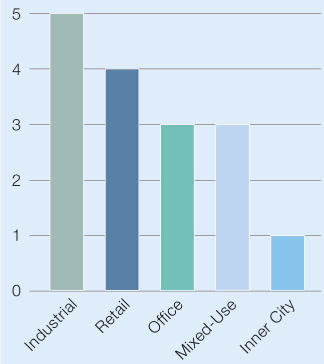

TOTAL VACANCIES




REVENUE STACK (by Property Type)




WAULT (by Property Type)




**Impact of Covid-19:**

The financial ramifications of the Covid-19 pandemic were only really felt towards the end of March 2020 hence the impact on the 2020 financial results were minimal. The team has proactively engaged with all key stakeholders whilst adhering to the safely measures and legal regulations in place.

Capital preservation, cash flow management, and the securing of appropriate debt relief from financiers has put the portfolio in a secure position going forward. The asset management team also continue to implement various tenant retention strategies including appropriate rental relief, structured deferrals, and the reduction of operating overheads. Creative ways to generate additional income and the aggressive letting of space have further fortified the portfolios position.

The table below illustrates collections versus deferred or forgone income by property type for the months of June and July 2020. The components are reflected as a % of contractual billings as invoiced in the normal course of business.

| **June 2020** | Retail | Office | Mixed Use | Industrial | ICH | Gallagher | Total |
|---|---|---|---|---|---|---|---|
| Collections | 17 597 700 | 5 574 569 | 5 598 315 | 3 284 015 | 4 739 342 | 1 611 590 | 38 405 531 |
| Relief given to tenants | 2 127 178 | - | 1 744 239 | 296 433 | 915 676 | - | 5 083 526 |
| Rental deferred | - | 18 000 | 90 050 | - | - | - | 108 050 |
| Deals under negotiation / Arrears | 363 210 | 604 933 | 663 415 | 210 156 | 669 930 | - | 2 511 644 |
| **Total** | **20 088 088** | **6 197 502** | **8 096 019** | **3 790 604** | **6 324 948** | **1 611 590** | **46 108 751** |
| Collections as a % of Obligations | 88% | 90% | 69% | 87% | 75% | 100% | 83% |

| **July 2020** | Retail | Office | Mixed Use | Industrial | ICH | Gallagher | Total |
|---|---|---|---|---|---|---|---|
| Collections | 18 574 981 | 6 152 229 | 6 373 253 | 2 757 594 | 5 292 040 | 1 565 698 | 40 715 795 |
| Relief given to tenants | 782 860 | 38 000 | 896 094 | 72 969 | 224 917 | - | 2 014 840 |
| Rental deferred | - | - | 80 431 | 491 875 | - | - | 572 306 |
| Deals under negotiation / Arrears | 885 651 | - | 551 058 | 579 187 | 848 211 | 3 394 | 2 867 501 |
| **Total** | **20 243 492** | **6 190 229** | **7 900 836** | **3 901 625** | **6 365 168** | **1 569 092** | **46 170 442** |
| Collections as a % of Obligations | 92% | 99% | 81% | 71% | 83% | 100% | 88% |

## IMPACT OIL AND GAS LIMITED ("IMPACT")

**www.impactoilandgas.com**

Impact Oil and Gas Limited ("Impact") is a UK-based petroleum exploration company. Its strategy has been to build a portfolio of deep-water prospects, offshore Africa, and then sell-down a majority interest in the licence to an industry super-major with the technical and financial capability to operate through the drilling phase. Having built the portfolio and farmed-out most of its acreage, Impact is now heading into the exciting drilling phase for matured and partnered prospects.

### Drilling Program:

Last year Impact reported on a major gas-condensate discovery, lying off the southern coast of South Africa, and discovered with the Brulpadda-1AX exploration well, in which Impact has an indirect interest (held through an arrangement to fund the BEE interest in Main Street, the joint venture company, which owns a 10% equity interest in Block 11B/12B). The Brulpadda discovery has reduced the risks on four additional high-graded prospects in the Block, and the Joint Venture will be following-up with two additional wells in Q42020, subject to delays resulting from Covid-19.

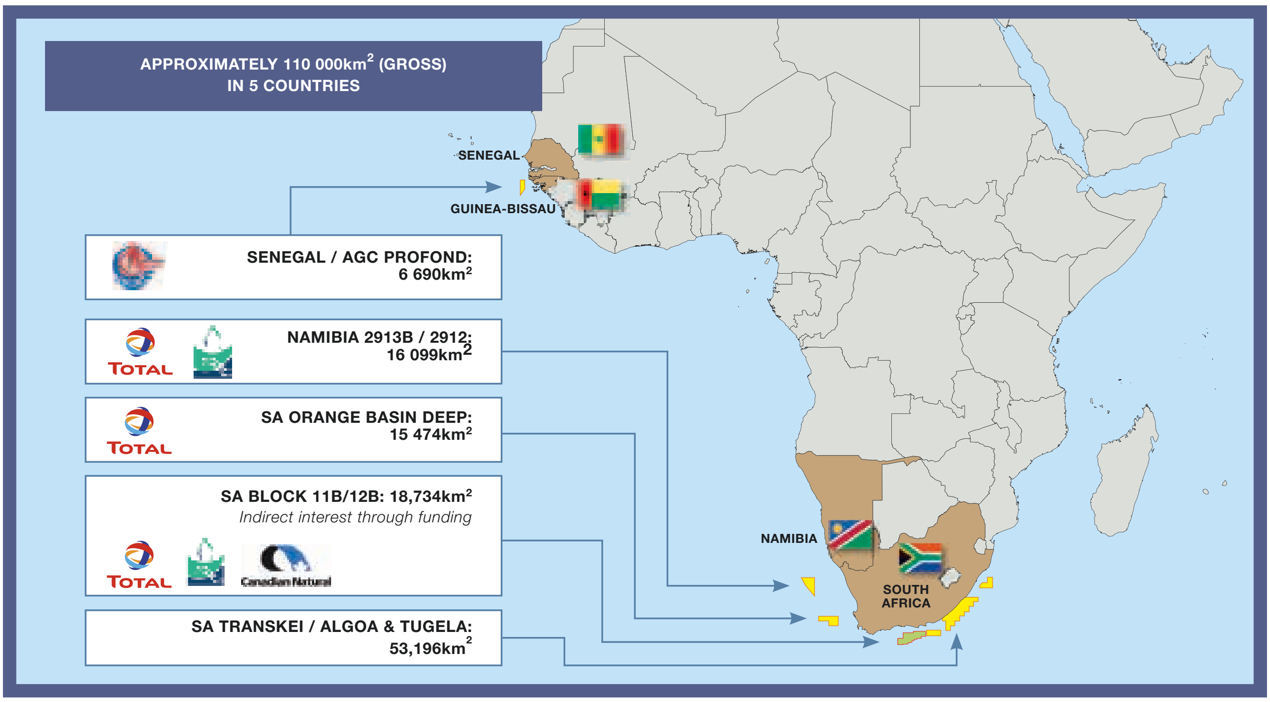
In addition, Impact anticipates that the Venus prospect in Namibia Block 2913b, lying in the deep-water Orange Basin, will be drilled by Total (the Operator) in 4Q20, taking account of Covid-19 related delays. The Venus prospect has been identified by Wood Mackenzie as one of the top 20 wells to watch worldwide in 2020.

Furthermore, Impact expects at least one well to be drilled by CNOOC during 2H21 in the AGC area offshore Senegal/ Guinea Bissau, where the joint venture has identified several exciting drill-worthy prospects. Any drilling, however, will be dependent on a new treaty between these two countries.

Whilst Impact's drilling programme has been delayed by the global Covid-19 pandemic, this remains an exciting time for Impact, as it continues to pursue several "company-maker" events.

### Growth and Opportunities:

Impact remains one of the largest acreage holders offshore South Africa, with substantial interests in the Orange Basin, Outeniqua Basin, the Transkei margin, and the Durban Basin. The potential of these offshore areas has been demonstrated by the Brulpadda well results and, if successful, the Venus well will also have a significant positive impact on the exploration potential of Southern Africa. With both ExxonMobil and Equinor withdrawing from the Transkei and Algoa Block in 2020, this has left Impact as 100% equity



holder, which has created an exciting opportunity for Impact to take advantage of the renewed interest in Southern Africa and to accelerate the exploration of this area.

In Namibia, adjacent to Block 2913B, Impact and Total also hold Block 2912, which could contain a sizeable extension of the Venus prospect, and the Orange Basin Deep block within the South African Orange Basin. In 2019, Qatar Petroleum joined Impact and Total in this Orange Basin portfolio.

**Challenges:**

Since the beginning of 2020, the oil and gas industry has been moving into a difficult operating environment. Brent oil price is trading between $30 and $40 per barrel, driven down by the Covid-19 pandemic and the flooding of the market with oil following the breakdown of co-operation between OPEC+ members. These challenges have added to the climate change concerns affecting investment in our industry. Looking forward, 2020 and 2021 are likely to remain challenging years. The full impact of Covid-19 is yet to be seen, and exploration and major projects are being suspended as companies seek to cut costs and reduce commitments due to low oil prices.

All these factors are outside of our control, but it has become increasingly important to have a competitive and stable environment in the jurisdictions we operate within.

To capitalise on the renewed interest in South Africa, certainty of fiscal terms is critical. Impact remains concerned about the timing for implementation of the new legal framework. The new Upstream Petroleum Resources Development Bill is currently in the consultation phase, so we are hopeful that the Bill will be concluded soon and hope that it offers certainty and competitive terms that enable investment.

In the AGC, whilst the joint venture remains focused on drilling in 2021, the ongoing negotiations for the renewal of the Treaty which governs the joint development zone between Senegal and Guinea Bissau remains a concern for the joint venture. We are hopeful that a resolution will be reached soon, but will closely watch the progress, as ongoing delays will impact on the timing of the well.

**Industry Outlook:**

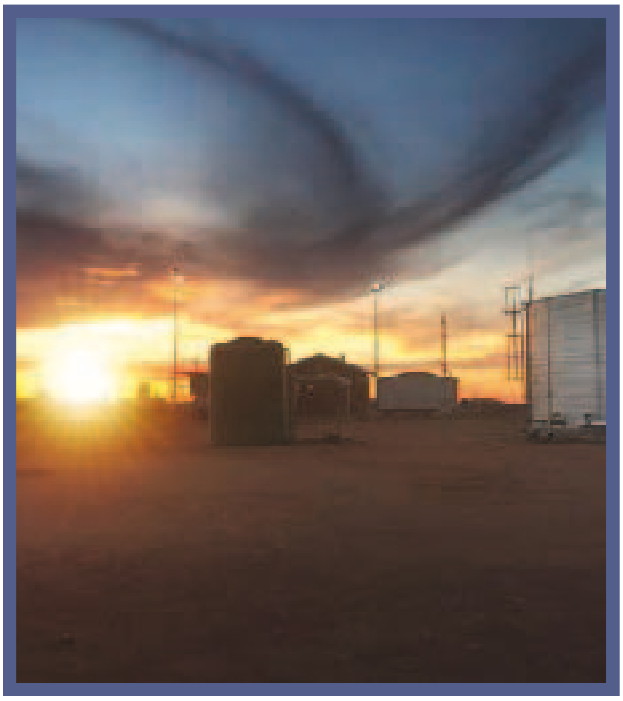
Global oil demand is expected to decrease considerably in 2020, but a rebound in demand is expected in 2021. Rystad Energy estimates that the lack of activity and investments currently planned by oil and gas companies, combined with an inevitable rebound in global oil demand, is set to cause a supply deficit of around 5 million barrels per day (bpd) in 2025.

KAROSHOEK

## KAROSHOEK SOLAR ONE PROPRIETARY LIMITED (RF)

HCI is a 10% stakeholder is Karoshoek, a company that developed the 100MW concentrated solar plant near Upington in the Northern Cape. Karoshoek has a 20-year contract to provide power to Eskom. The plant is able to store energy through a molten salt system and can therefore provide 4.5 hours of power to the grid after sunset.

The plant suffered a major setback due to an equipment failure on 29 January 2019. Full production was restored in late May 2019 and this had a major impact on revenue. However, the company was able to claim successfully under the Construction Contract and Year 1 dividends were not materially affected. Since then the plant has performed well, achieving an average of over 90% of planned output. Management expects that the plant will pass the Long Term Performance Test in late 2020 and we are confident that this will be an increasingly valuable part of the HCI investment portfolio.



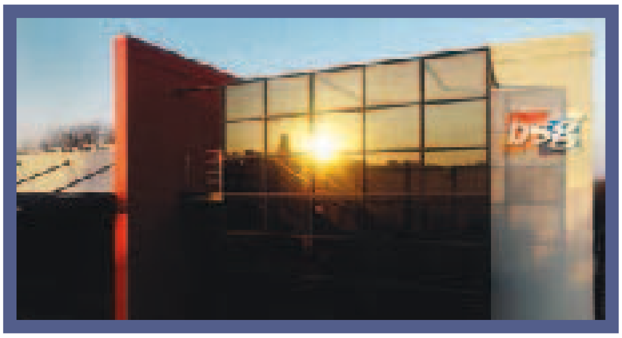
**BUSINESS SYSTEMS GROUP (AFRICA) PROPRIETARY LIMITED ["BSG"]**

**www.bsg.co.za**

The BSG difference lies in its people, top talent from diverse backgrounds with a collective commitment to create a culture of excellence, innovation, and growth. As a result, BSG is a successful homegrown South African consulting and technology professional services company, founded by Africans, working for Africa since 1997.

BSG continues to master an innovative ability to interpret the dynamics of the local and international markets its clients operate in. BSG is proud to serve its long-term clients, where BSG's multi-skilled delivery teams take a data-insight-led approach to solve their organisations' most important problems.

BSG is passionate about being a proactive force for positive change, by inspiring healthy, active lifestyles in its employees and clients. BSG contributes to our poorest communities by supporting the education of the most deserving of our nation's youth, through its decade long relationship with the LEAP Science and Maths Schools. BSG also proudly represents industry on many faculty advisory boards at our country's leading universities.



**GRIPP Advisory ("GRIPP")**

**www.grippadvisory.co.za**

GRIPP commenced operations in April 2018, with offices in Johannesburg and Cape Town, focusing on providing professional advisory and business consulting services to the HCI group of companies and the wider market.

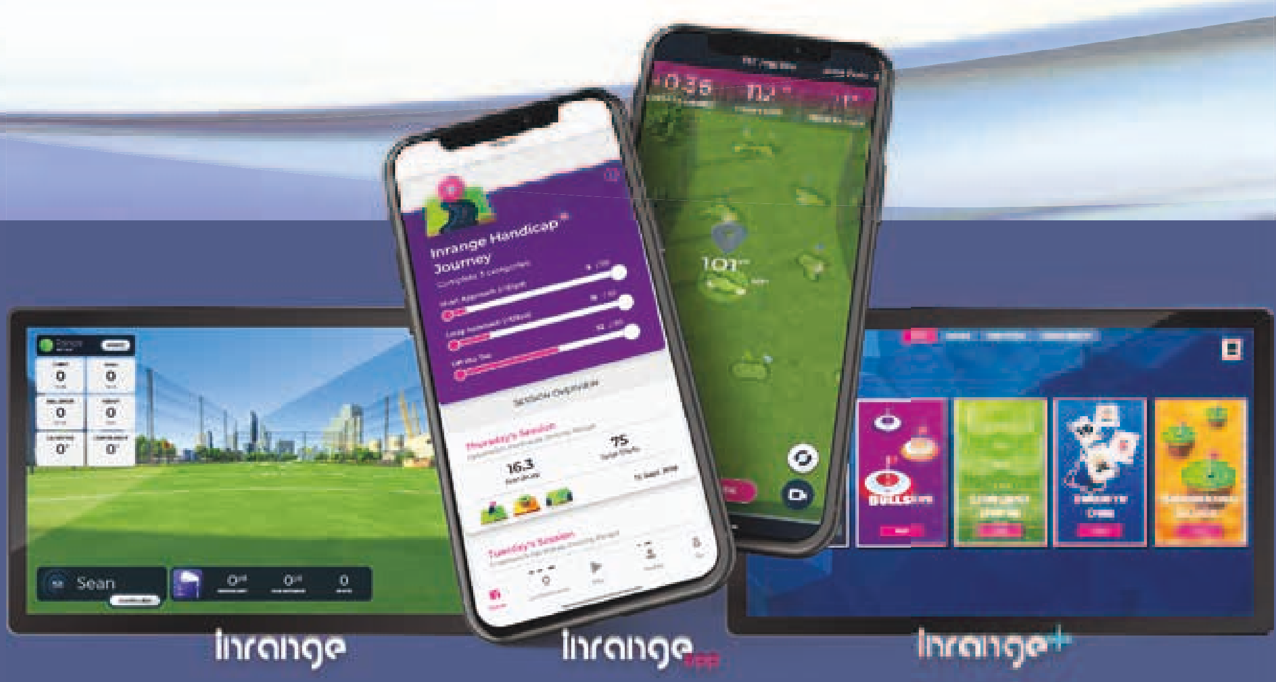
During the past year, the company continued to grow its Internal Audit, Information Technology, Investigations, and Regulatory Compliance service offering whilst building complementary capabilities in areas such as Governance, Risk, and ancillary Insurance services.

The company improved its market share and delivered an improved growth of its turnover despite negative business conditions. It is poised to open a satellite office in Durban to offer improved accessibility and reduced delivery costs to its KwaZulu-Natal client base.

GRIPP Advisory is committed to the transformation and social imperatives of the HCI Foundation and participates in the foundation's initiatives. In line with this, the company seeks to create new employment opportunities in the advisory and consulting sector for appropriately qualified HCI Foundation beneficiaries whilst embracing diversity.

**Niveus investments Limited ("Niveus")**

Subsequent to year-end, Niveus was delisted from the JSE. A number of assets were sold as part of the delisting and winding down of Niveus. Alphawave Golf, a company that develops and operationalises a golf-ball tracking business was sold to HCI. Betcoza, an online and retail sports gaming business, has, subsequent to year-end, been sold to Tsogo Sun Gaming. La Concorde, which in turn owns a number of investment properties in the Paarl area, the Laborie farm and an art collection, will in future be managed by HCI, with the various properties managed on an operational basis by HCI Properties.




**ALPHAWAVE GOLF PROPRIETARY LIMITED ("Alphawave")**

**www.inrangegolf.com**

Alphawave is a sports technology business based in London, UK and Stellenbosch, South Africa's tech hub. The Alphawave parent company, the Alphawave Group, is a world leader in the niche field of electromagnetics and ultrasensitive radio receivers with over 100 scientists and engineers in the group.

Founded in 2017 with strong support from HCI, Alphawave has developed the Inrange suite of products as the consumer brand for Alphawave's full driving range solution and mobile/tablet application. Alphawave's vision is to redefine what golf means to people around the world by transforming the driving range into an engaging, fun and addictive experience for golfers and non-golfers of all ability levels and across all demographics.

The power of the Inrange system is its ability to fully cater for every level of player, and every reason to come to the range. This enables driving range owners to tap into a whole new customer base who are looking to have fun and, thanks to Inrange, stay longer, and spend more at the range.

**The Inrange product suite is made up of:**

- **Inrange radar array:**
  A complete radar-based driving range ball tracking solution. Our radar tracks every ball, from every bay, from the scratch golfer's truest drive to the absolute beginner's duff.
- **Inrange and Inrange app:**
  In bay touchscreen application with supporting iOS and Android apps for keen golfers looking to harness technology to continuously improve their game and bring true-to-course pressure & shot-byshot analysis to their driving range sessions.
- **Inrange+:**
  The first product of its kind offering a full suite of immersive multiplayer games on in-bay big screen displays. Inrange+ officially launched at our partner ranges in July 2020.

Inrange has experienced good growth in both 2019 and 2020 with Inrange sites either operational or in development in key locations around the globe including the United States of America, the United Kingdom, United Arab Emirates and South Africa with strong demand in other key markets in Europe and the Far East.

# SHAREHOLDERS' SNAPSHOT

**Analysis of shareholders**

Listed below is an analysis of shareholdings extracted from the register of ordinary shareholders at 31 March 2020

**Range of holdings**

| Share Range | | | Number of shareholders | % of current shareholders | Number of shares | % of Issued Capital |
|---|---|---|---|---|---|---|
| 1 | – | 1000 shares | 2 352 | 68,9 | 751 782 | 0,9 |
| 1 001 | – | 10 000 shares | 713 | 20,9 | 2 309 382 | 2,7 |
| 10 001 | – | 50 000 shares | 201 | 5,9 | 4 432 507 | 5,2 |
| 50 001 | – | 100 000 shares | 57 | 1,7 | 4 177 120 | 4,9 |
| 100 001 | – | 500 000 shares | 63 | 1,8 | 12 457 941 | 14,5 |
| 500 001 | – | 1 000 000 shares | 12 | 0,4 | 8 358 806 | 9,8 |
| 1 000 001 | – | shares and over | 12 | 0,4 | 53 133 110 | 62,0 |
| | | | 3 410 | 100,0 | 85 620 648 | 100,0 |

**Type of shareholder**

| | | | | |
|---|---|---|---|---|
| Banks | 37 | 1,1 | 5 253 460 | 6,1 |
| Close corporation | 71 | 2,1 | 3 121 677 | 3,6 |
| Individual | 2 591 | 76,0 | 24 399 593 | 28,6 |
| Other corporation | 77 | 2,3 | 32 132 432 | 37,5 |
| Pension fund | 55 | 1,6 | 2 068 383 | 2,4 |
| Private company | 79 | 2,3 | 10 609 553 | 12,4 |
| Public company | 35 | 1,0 | 5 181 285 | 6,1 |
| Trust | 465 | 13,6 | 2 854 265 | 3,3 |
| | 3 410 | 100,0 | 85 620 648 | 100,0 |

**Shareholders' diary**

| | |
|---|---|
| Financial year-end | 31 March 2020 |
| Annual general meeting | 15 October 2020 |
| Reports | |
| - Preliminary report | June |
| - Interim report at 30 September | November |
| - Annual financial statements | September |

### Shareholdings greater than 5%

At 31 March 2020, insofar as HCI is aware, the following members beneficially held directly or indirectly 5% or more of the issued shares:

| | **2020** | 2019 |
|---|---|---|
| Southern African Clothing and Textile Workers' Union | **28,5** | 32,3 |
| Ronaldgate Proprietary Limited | **7,5** | 7,2 |
| Squirewood Investments 64 Proprietary Limited * | **5,3** | 5,6 |
| | **41,3** | 45,1 |

** Treasury shares*

### Shareholder spread

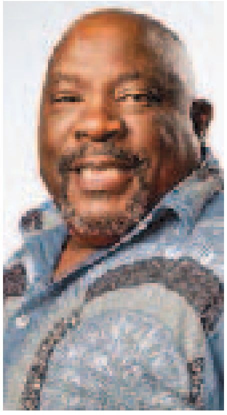
| | Percentage held | | Number of shareholders | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Public | **57,2** | 53,4 | **3 398** | 3 865 |
| Non public | **42,8** | 46,6 | **12** | 9 |
| Directors | **7,6** | 7,6 | **5** | 4 |
| Associates of directors | **1,1** | 0,8 | **3** | 1 |
| Significant shareholder | **28,5** | 32,3 | **1** | 1 |
| Share trust | **0,2** | 0,2 | **1** | 1 |
| Treasury shares * | **5,4** | 5,7 | **2** | 2 |
| | **100,0** | 100,0 | **3 410** | 3 874 |

** Nil shares (2019: nil) held by the company, pending cancellation, at year-end.*

| **Stock exchange performance** | **31 March 2020** |
|---|---|
| Total number of shares traded ('000) | **17 067** |
| Total value of shares traded (R'000) | **1 524 296** |
| Market price (cents per share) | |
| - Closing | **2 746** |
| - High | **12 000** |
| - Low | **1 999** |
| Market capitalisation (R'000) | **2 220 694** |

# BOARD OF DIRECTORS

## INDEPENDENT NON-EXECUTIVE DIRECTORS



**ELIAS MPHANDE** *(61)*
*Elec. Eng. [dip]*
*Independent Non-executive Director*
*Chairperson*

Elias was appointed as Chairperson of HCI in 2014. He has served as national organising secretary of the Southern African Clothing and Textile Workers' Union, CEO of AUTA and of the Vukani Group and chairperson of Golden Arrow Bus Services. He is a director of eMedia Holdings, Tsogo Sun Gaming and a trustee of the HCI Foundation and a trustee of the HCI Foundation. Elias was appointed to the Board of HCI as a non-executive director in September 2010.

**RACHEL WATSON** *(61)*
*Independent Non-executive Director*
*Member –*
*audit and risk committee;*
*remuneration committee;*
*social and ethics committee*

Rachel served as manager at a regional broadcaster. Prior to this she was employed at the Southern African Clothing and Textile Workers' Union. She is a director of HPL&R, eMedia Holdings and Tsogo Sun Gaming and a trustee of the HCI Foundation. Rachel was appointed to the Board of HCI as a non-executive director in March 2014.

**FREDDIE MAGUGU** *(61)*
*BA (Theology)*
*Independent Non-executive Director*
*Chairperson –*
*remuneration committee*

Freddie has been serving the community in East London as a pastor since 2006. Prior to this appointment he reached the position of national organising secretary for the Southern African Clothing and Textile Workers' Union. Freddie was appointed to the Board of HCI as a non-executive director in April 1998.

**JABU NGCOBO** *(69)*
*Independent Non-executive Director*
*Chairperson - social and ethics committee*
*Member –*
*audit and risk committee;*
*remuneration committee*

Jabu served as regional secretary for Africa of the International Textile Garment and Leather Workers Federation from 2006. Prior to this appointment he held the position of general secretary of the Southern African Clothing and Textile Workers' Union. He is a director of Tsogo Sun Hotels and HPF. Jabu was appointed to the Board of HCI as a non-executive director in October 2004.

## NON-EXECUTIVE DIRECTORS

**MAHOMED GANI** *(67)*

*B.Compt [Hons] CA (SA)*

*Independent Non-executive Director*

*Chairperson – audit and risk committee*

Mahomed "Mac" is a chartered accountant with over 30 years' experience in the accounting and audit profession. He was a founding partner of MSGM Masuku Jeena Inc., a partner of Saboor Gani & Co and a partner of PwC until 2013. He is a non-executive director on a number of boards including Dis-Chem Pharmacies Limited, Tsogo Sun Gaming Limited and the Wits Health Consortium Proprietary Limited. Mac is on the investigating committee of the Independent Regulatory Board of Auditors. Mac was appointed to the Board of HCI as non-executive director in August 2016.

**LAURELLE McDONALD** *(38)*

*CA (SA)*

*Non-executive Director*

Laurelle is the Chief Financial Officer of Tsogo Sun Hotels Limited ("THL"). After serving her articles at Grant Thornton she joined Gold Reef Resorts as Assistant Financial Manager at Silverstar Casino in 2007 and was promoted to Group Financial Manager and the Company Secretary of Gold Reef Resorts. After the acquisition of Gold Reef Resorts by Tsogo Sun, she was appointed Corporate Finance and Treasury Manager of Tsogo Sun Group ("Tsogo"), and, upon its unbundling from Tsogo, as Chief Financial Officer of THL. Laurelle was appointed to the board of HCI as a non-executive director in March 2020.

**NQOBANI MKHWANAZI-SIGEGE** *(36)*

*B.A. (Politics, Philosophy and Economics)*

*Non-executive Director*

Bani joined the HCI Group in 2013, together with Rob Nicolella she was part of the inaugural team of the HCI Properties. In her time at HCI she also served as a director for the Atterbell Investments, the convention business that manages and operates Gallagher Convention Centre. Prior to joining HCI she was employed at Investec Bank in the property finance division. The focus was funding property developers and institutional clients acquiring, constructing, and refurbishing property assets in all asset classes. Bani is a Trustee of the HCI Foundation. Bani was appointed to the board of HCI as a non-executive director in September 2019.

## EXECUTIVE DIRECTORS

### JOHN COPELYN

*(70)*

*Chief Executive Officer*

*B.A. [Hons] B.Proc*

Johnny joined HCI as chief executive officer in 1997. Prior to this he was a member of Parliament and general secretary of the Southern African Clothing and Textile Workers' Union. He holds various directorships including Platinum Group Metals Limited. Johnny is chairperson of Deneb Investments, eMedia Holdings, Tsogo Sun Hotels, Tsogo Sun Gaming and the HCI Foundation.

### KEVIN GOVENDER

*(49)*

*B.Compt [Hons]*

Kevin joined the HCI group in 1997. He stepped down as financial director of the company on 1 August 2019, a position he has held since 2001. Prior to his appointment as financial director in 2001, he was the company secretary and financial officer of the group. He holds directorships in numerous HCI subsidiaries including Deneb Investments, eMedia Holdings and Hosken Passenger Logistics and Rail. He is a trustee of the HCI Foundation. Kevin was appointed to the Board of HCI as executive director in June 2000.

### ROB NICOLELLA

*(51)*

*Financial Director*

*CA (SA )*

Rob is a chartered accountant and has attended a leadership and development programme ("PLD") at Harvard University. During his 18 year tenure at Investec Bank, Rob headed the Structured Finance Division (Western Cape) and thereafter, Private Bank Western Cape. He joined the HCI Group in 2011 to develop the HCI Properties portfolio. He is a director on the boards of Impact Oil and Gas, Tsogo Sun Hotels and the Hospital Property Fund ("HPF"). Rob was appointed to the board in May 2019 as an executive director and as financial director from August 2019.

### YUNIS SHAIK

*(63)*

*Executive Director*

*B.Proc*

Prior to his appointment at HCI Yunis was an attorney of the High Court and served as an acting judge in the Labour Court. He is a former deputy general secretary of the Southern African Clothing and Textile Workers' Union and served as a senior commissioner to the CCMA in KwaZulu Natal. He is a director of Deneb Investments, Tsogo Sun Gaming and Hosken Passenger Logistics and Rail. Yunis was appointed to the Board of HCI in August 2005 as non-executive director and appointed as executive director in August 2014.

# REPORT OF THE AUDIT AND RISK COMMITTEE

*Members: Mr MSI Gani [chairman], Mr JG Ngcobo, Ms RD Watson.*

The audit and risk committee ("committee") has pleasure in submitting this report in respect of the past financial year of the group, as required by section 94 of the Companies Act 2008, as amended.

The HCI audit committee is a formal committee of the board, appointed by the shareholders, and functions within its documented terms of reference. The terms of reference were reviewed and updated during the year and approved by the board. All members of the committee act independently. The financial director, the group's risk officer and the group financial manager attend the meetings as permanent invitees, along with external audit and internal audit. Other directors and members of management attend as required.

The committee met four times during the year under review. At least two non-conflicting members are required to form a quorum.

Please see the table below for attendances at these meetings:

| Committee member | Number of meetings | Attendance of members |
|---|---|---|
| MSI Gani (chair) | 4 | 4 |
| ML Molefi* | 1 | 1 |
| JG Ngcobo | 4 | 4 |
| RD Watson** | 3 | 3 |

* *Resigned 22 May 2019*

** *Appointed 22 May 2019*

**Role, purpose and function:**

The committee fulfils an independent oversight role regarding the group's financial statements and the reporting process, including the system of internal financial control, with accountability to both the board and to shareholders.

The committee assists the board in discharging its responsibilities. It also considers reports and information generated by the subsidiary companies' audit or finance committees to their respective boards. Each group company has its own board of directors responsible for the management, including risk management and internal control, of that company and its business.

The committee's responsibilities include the statutory duties prescribed by the Companies Act 71 of 2008 as amended and the Listings Requirements of the Johannesburg Stock Exchange, recommendations by King IV and additional responsibilities assigned by the board. The committee is satisfied that, in respect of the financial period under review, it has performed all the functions required by law to be performed by an audit committee, as set out by section 94 of the Act and in terms of the committee's terms of reference.

**Combined assurance:**

The Combined Assurance Forum (incorporating internal audit, external audit, the financial director and the chief risk officer) provides assurance to the board that the risk management process is integrated into the daily business activities of the company and that the appropriate levels of assurance are obtained.

**External auditors:**

The external auditors for the period under review were BDO South Africa Incorporated and Mr Theunis Schoeman was the designated auditor.

The committee has:

- confirmed the independence of the external auditor as per section 92 of the Act;
- reviewed the performance of the external auditor and confirmed that the external auditor, the partner and the firm, have complied with the suitability requirements of the JSE as detailed in paragraph 22.15(h) of the JSE Listings Requirements;
- approved the fees to be paid to the external auditor and their terms of engagement;
- determined the nature and extent of any non-audit services that the external auditor may provide to the company and its wholly-owned subsidiaries;
- pre-approved any proposed agreement with the external auditor for the provision of non-audit services to the company and its wholly-owned subsidiaries;
- provided for regular confidential meetings between the committee members and the external and internal auditors; and
- considered all entities included in the consolidated group IFRS financial statements in respect of financial reporting procedures.

**Risk management:**

The board acknowledges that it is accountable for the process of risk management and the system of internal control of the group. Mr D Levin holds the position of group risk officer. As HCI is an investment holding company, the risk management process takes into account the risks and opportunities within the company as well as those inherent in its portfolio of investments.

The committee is an integral component of the risk management process and, specifically, the committee ensures, by enquiry of management, external and internal auditors, that all material corporate risks have been identified, assessed, monitored and effectively managed.

The committee further enables the principle that risk management is also about analysing opportunities and not only guarding against downside possibilities. Internal control structures have been implemented to ensure that significant business and financial risk is identified and appropriately managed:

- it is management's responsibility to design, implement and monitor the risk management policies;
- risk assessments are performed on a continual basis;
- frameworks and methodologies are implemented to increase probability of anticipating unpredictable risks;
- risk responses by management are considered and implemented;
- risks are monitored continuously; and
- the board should receive assurance regarding effectiveness of risk management.

The committee is accountable to the board for implementing and monitoring the processes of risk management and integrating this into day-to-day activities. The committee, however, does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

A disciplined and timeous reporting structure enables the committee to be fully apprised of group company activities, risks and opportunities. This is achieved by requiring that subsidiary companies report their key risks and responses to the committee on a biannual basis, with additional exception reporting as required. The focus of the committee is on those risks which may negatively impact the long-term sustainability of the particular business or have a material impact on short-term performance.

This continual emphasis on risk management assists the board to foster a culture in the HCI group that emphasises and demonstrates the benefits of a risk-based approach to internal controls and management of the group. Effective risk management is seen as fundamental to the sustainability of the group's interests.

**Material risks:**

A high level description of all immediately identifiable material risks which are specific to the group, the industries in which it operates and/or its issued ordinary shares are listed below:

**Channels through which SA and the Group have been affected by COVID-19**

- Negative market sentiment compounded by slowing economic recovery;
- Substantial disruption to international and domestic travel and tourism;
- Slowing down and changes to consumer spending;
- Disruptions to global supply chains and domestic production;
- Increased risk of workers being put on short time or retrenched due to lack of demand.

**Reforms which remain relevant to the Group**

- Policy uncertainty/ regulatory authorities, including:
  - changing B-BBEE regulations;
  - finalisation of digital migration;
  - SA mining rights - Department of Mineral Resources discontinued negotiations on a revised Mineral and Petroleum Resources Development Act, in 2018;
  - Government land expropriation policy.

**Societal and business risks relevant to the Group**

- Robberies and assaults on buses;
- Unrest affecting mining operations and bus transport;
- Unreliable and costly utilities – load shedding and water shortages;
- Commodity price risk including coal, oil and palladium;
- Cyber and information related risk.

**Internal audit:**

The group has established an internal audit function at the holding company level. Where appropriate, subsidiaries have their own internal audit departments that perform the internal audit function for the relevant subsidiary in accordance with the subsidiary's agreed internal audit plan.

HCI has a majority shareholding in GRIPP Advisory Services Proprietary Limited which is responsible for the internal audit function within the group.

**IT governance:**

As an investment holding company with limited technology needs, HCI has not deemed it necessary to focus on IT at a group level. The company has outsourced its IT operations to a credible service provider via a service level agreement. The committee considers all the reports from the subsidiary companies, as included in the risk report.

Due to the increasing possibility of cyber threats, the company engaged PricewaterhouseCoopers Inc. to assess the security maturity and vulnerability of the company's IT infrastructure during the 2019 financial year. The committee has reviewed the recommendations and monitored the implementation thereof to improve the cyber-security posture at HCI. Subsequent to year-end further vulnerability tests have been carried out by internal audit to ensure continuous improvements of the cybersecurity posture at HCI.

**Compliance:**

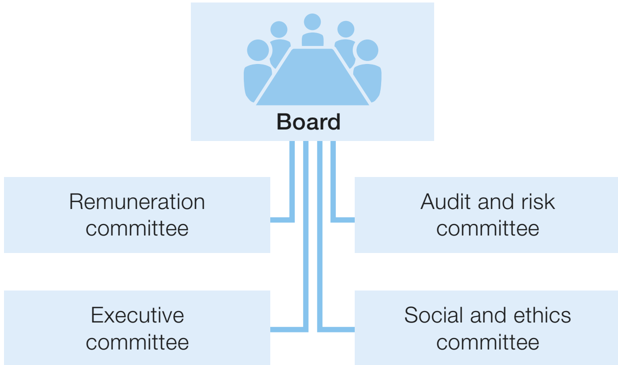
The social and ethics committee has oversight of the group's compliance programme. It is the responsibility of this committee to review the matters that pertain specifically to audit committees, such as tax compliance.

**Whistle-blowing:**

The committee has oversight of the company's whistleblowing programme. During the period under review it was satisfied that adequate and appropriate provision was made for whistle-blowing. No instances requiring action at a group level were raised or identified during the period under review.

**Corporate governance:**

Corporate governance structure as at 31 March 2020:




HCI is committed to the highest standards of business integrity, ethics and professionalism. The King Report on Corporate Governance™ for South Africa 2016 ("King IV"), which is on an apply-and-explain basis, effective for years starting on or after 1 April 2017. King IV advocates an outcomes-based approach and defines corporate governance as the exercise of ethical and effective leadership towards the achievement of the following governance outcomes:

- ethical culture;
- good performance;
- effective control; and
- legitimacy.

HCI has reviewed the practices underpinning the principles promoted in King IV. Many of these principles are entrenched in the group's internal controls, policies and procedures governing corporate conduct. The board is satisfied that HCI, in all material aspects, complies with the major recommendations of the King IV code to ensure that sound corporate governance and structures are applied within the group.

For the detailed King IV application register please visit the company website: www.hci.co.za.

**Financial director and finance function:**

During the period under review, the committee considered the expertise and experience of the financial director Mr JR Nicolella, and is satisfied that, in terms of section 3.84(g) of the JSE Listings Requirements, the financial director has the appropriate skills, expertise and experience to meet the responsibilities of the position.

The committee has also, in terms of King IV, assessed the expertise of the finance function and the committee is satisfied that the finance team has the required and adequate skills to perform their duties.

**Financial statements and going concern:**

The committee has reviewed the separate and consolidated financial statements of the company and is satisfied that they comply with International Financial Reporting Standards and the Companies Act, and that the accounting policies used are appropriate.

The review of the financial statements include a review of the legal matters that could have a significant impact on the group's financial statements and the key audit matters contained in the external audit report.

The committee has also reviewed a documented assessment by management of the going concern premise of the company before recommending to the board that the company will be a going concern in the foreseeable future.

**Sustainability reporting:**

The committee considered the company's sustainability information, as disclosed in this report, and has assessed its consistency with operational and other information known to committee members. The committee is satisfied that the sustainability information is reliable and consistent with the financial results.

**Recommendation of the integrated annual report:**

The committee has evaluated the integrated annual report of Hosken Consolidated Investments Limited and the group for the period ended 31 March 2020 and, based on the information provided to the committee, the committee recommends the adoption of the annual financial statements and intergrated annual report by the board.

Mr MSI Gani
Chairperson: Audit and risk committee
24 August 2020

# REPORT OF THE REMUNERATION COMMITTEE

*Members: MF Magugu (chairman), Mr JG Ngcobo, Ms RD Watson.*

All the members of the committee are independent non-executive directors. In line with the recommendations of King IV, the chief executive officer attends the meetings of the committee at the request of the committee, but recuses himself from the meeting before any decisions are made.

The committee met twice during the past year, as per the Memorandum of Incorporation.

| Committee member | No of meetings | Attendance of members |
|---|---|---|
| MF Magugu (chair) | 2 | 2 |
| JG Ngcobo | 2 | 2 |
| RD Watson | 2 | 2 |

**Role, purpose and function:**

This committee is primarily responsible for overseeing the remuneration and incentives of the executive directors and executive management.

The functions and mandates of the remuneration committee include:

- making recommendations to the board on directors' fees and the remuneration and service conditions of executive directors, including the chief executive officer;
- providing a channel of communication between the board and management on remuneration matters;
- reviewing the group's remuneration policies and practices and proposals to change these and to make recommendations in this regard to the board;
- reviewing and approving the terms and conditions of executive directors' employment contracts, taking into account information from comparable companies;
- determining and approving any grants to executive directors and other senior employees made pursuant to the company's employee share option scheme;
- reviewing and approving any disclosures in the annual report or elsewhere on remuneration policies or directors' remuneration; and
- As a company, HCI is committed to the principle of fair and responsible remuneration for all employees. The committee has empowered management to ensure that this principal is upheld and to address any remuneration disparities.

**Remuneration philosophy:**

HCI's remuneration philosophy supports its business strategy, namely a long-term approach to deliver value in a sustainable manner.

The committee takes cognisance of local best remuneration practices in order to ensure that such total remuneration is fair and reasonable to both the employee and the company. The committee utilises the services of independent remuneration consultants to assist in providing guidance on the remuneration for executive management. The group's remuneration philosophy strives to reward employees in a fair and responsible way which ensures a culture of high performance to deliver returns to shareholders through employees who are motivated, engaged and committed.

This philosophy's intended consequence is to attract, retain and develop employees with scarce and critical skills who contribute to sustained business growth and who are aligned to the strategic and operational requirements of the business.

**Remuneration principles:**

The total guaranteed package includes a cash salary, long-term share plan and a short-term incentive cash bonus.

The company approved a malus and clawback policy during the year under review.

The committee has adopted, where appropriate, certain elements of the King IV principles in relation to Remuneration Policy and disclosure.

This committee is of the view that HCI's Remuneration Policy continues to achieve its stated objectives.

In the event that the non-binding advisory resolution in respect of the company's remuneration report or its remuneration policy, as summarised in this report, is voted against by 25% or more of votes casted at the annual general meeting, the board will seek to engage directly with the disapproving shareholders in order to contemplate the reasons for dissent and implement corrective action, if it deems fit.

There were no objections to the King Report on Corporate Governance ("King IV") and the non-binding advisory vote taken at the Annual General Meeting on 12 September 2019 which passed by the requisite majority.

**Components of remuneration:**

***Fixed remuneration*:**

Executive directors earn a basic salary which is determined by independent remuneration consultants and escalates in line with inflation for the duration of their contracts.

***Variable remuneration*:**

***Short-term incentive*:**

Bonuses payable are discretionary, recommended by this committee and approved by the Board.

The committee considers various factors in determining executive bonuses. These include earnings growth of the group and individual subsidiaries, the value created by transactions concluded and implemented and strategic and operational success achieved within the group during the year under review.

The maximum bonuses that can be earned by executive management are as follows:

| Position | % of annual salary |
|---|---|
| Chief executive officer | 75 |
| Financial director | 65 |
| Other senior management | 40 - 65 |

***Long-term incentive*:**

*HCI Employee Share Option Scheme*

The Group operates a share option scheme, The HCI Employee Share Scheme ("the Scheme"), in terms of which shares in the Group are offered on a share option basis to participants, provided they remain in the Group's employ until the options vest. Any gain realised on the exercise of these options is settled on a net equity basis, whereby the participant receives that number of shares that equates in value to the gain made on exercise date.

Options must be exercised within six months of the vesting date, where after the options lapse. Options vest over periods of three to five years. These vesting periods may be varied by the board of directors.

Share options are allocated to participants at a ten percent discount to the 20 day volume weighted average market price as at the date of grant. The number of share options granted is determined by use of a multiple of the participant's basic salary, dividend by the discounted market price. The multiples relating to each level of management are as follows:

| Position | Multiple of basic salary |
|---|---|
| Chief executive officer | 6 |
| Financial director | 5 |
| Senior management | 4-5 |
| Other management | 2-3 |

Such awards are made from time to time and are disclosed in detail. Refer to pages 47 to 48.

At 31 March 2020, HCI held sufficient treasury shares to settle its obligations to deliver shares to the participants in the HCI share scheme.

In the event of resignation or dismissal for just cause all unexercised share options will be forfeited.

Subject to the discretion of the board, in the event of death, disability, retrenchment or retirement (or early retirement) unvested share options may become exercisable prior to the option expiry date.

In the event of a change of control of the company, unvested share options may become exercisable immediately or the subject share changed to another entity, subject to the discretion of the board.

***Non-executive directors' fees*:**

Non-executive directors earn a basic fee which is in line with companies of a similar size. These fees escalate annually in line with inflation and are reviewed every 3 years by an independent remuneration consultant. Directors earn up to a maximum of 50% of their board fees by serving on the committees responsible to the board of directors. Non- executive directors do not receive short-term incentives and do not participate in any long-term incentive schemes.

Directors' emoluments and other relevant remuneration information are disclosed on page 51 to 52 of the remuneration report.

| Position | Actual fee 2020 | Proposed Fee |
|---|---|---|
| | excl VAT | R'000 |
| Non-executive director | 323.6 | 323.6 |
| Member of audit committee | 161.8 | 161.8 |
| Member of remuneration committee | 84.9 | 84.9 |
| Member of social and ethics committee | 40.0 | 40.0 |

## REMUNERATION IMPLEMENTATION REPORT

Principle 2.26 recommends that the remuneration of each individual director and the three most highly paid employees who are not directors in the company be disclosed. The remuneration report discloses the remuneration of the three most highly paid employees, however the names of the employees have not been disclosed as the board is of the opinion that such information is private to the individuals concerned and adds no value to stakeholders.

Details of remuneration of the three highest paid members of management, which are not directors, for the year ended 31 March 2020 is reflected below:

| | Salary per annum R'000 | Other benefits R'000 | Bonus R'000 | Other long-term incentives R'000 | Gains on share scheme R'000 * | Total R'000 |
|---|---|---|---|---|---|---|
| Employee A | 4 217 | 839 | 2 741 | - | 20 636 | 28 433 |
| Employee B | 6 476 | 572 | 5 237 | 13 175 | - | 25 460 |
| Employee C | 3 849 | 711 | 2 509 | 15 479 | - | 22 548 |

** IFRS2 share-based payment expense*

## HCI EMPLOYEE SHARE OPTION SCHEME

The Group operates a share option scheme, The HCI Employee Share Scheme ("the Scheme"), in terms of which shares in the Group are offered on a share option basis to participants, provided they remain in the Group's employ until the options vest. Any gain realised on the exercise of these options is settled on a net equity basis, whereby the participant receives that number of shares that equates in value to the gain made on exercise date.

Options must be exercised within six months of the vesting date, where after the options lapse. Options vest over periods of three to five years. These vesting periods may be varied by the board of directors.

| Share options granted to eligible participants that have not yet become unconditional: | **31 March 2020** Number of share options | **31 March 2020** Weighted average exercise price R | 31 March 2019 Number of share options | 31 March 2019 Weighted average exercise price R |
|---|---|---|---|---|
| Balance at the beginning of the year | **1 444 068** | **118,14** | 956 391 | 123,47 |
| Options granted | **889 356** | **87,71** | 978 118 | 117,78 |
| Options that became unconditional | **( 441 030)** | **118,83** | ( 490 441) | 127,82 |
| Options forfeited | **( 51 936)** | **112,54** | - | - |
| Balance at the end of the year | **1 840 458** | **103,43** | 1 444 068 | 118,14 |

| | Number of share options | Exercise price R |
|---|---|---|
| The fair value of options granted is measured using the Black-Scholes model. Share options granted in the current year were fairly valued using a volatility indicator of 23% (2019: 25%) and an annual interest rate of 6.5% (2019: 6.5%) . The cost relating to options is recognised by allocating the fair value over the vesting period on a straight-line basis. | | |
| The volume weighted average share price during the current year was R89.31 (2019: R127.98). | | |
| The options issued in terms of the Scheme and outstanding at 31 March 2020 become unconditional between the following dates: | | |
| 26 September 2020 and 26 March 2021 | 4 614 | 117,03 |
| 28 August 2021 and 28 February 2022 | 919 270 | 117,78 |
| 26 September 2021 and 26 March 2022 | 4 614 | 117,03 |
| 28 August 2022 and 28 February 2023 | 16 900 | 117,78 |
| 29 August 2022 and 28 February 2023 | 845 621 | 87,71 |
| 28 August 2023 and 28 February 2024 | 16 898 | 117,78 |
| 29 August 2023 and 28 February 2024 | 16 271 | 87,71 |
| 29 August 2024 and 28 February 2025 | 16 270 | 87,71 |
| | 1 840 458 | |

A maximum number of 1 103 330 (2019: 875 664) shares may be issued in respect of 1 840 458 (2019: 1 444 068) options issued in terms of the Scheme.

The maximum number of shares that may be utilised for the purposes of the Scheme is 10 500 000 shares. In addition to the options in issue at the reporting date and shares already delivered to participants, a further 8 782 623 (2019: 9 010 289) shares may be utilised by the Scheme. 878 162 (2019: 978 118) options were issued in terms of the Scheme during the year and nil shares were delivered to participants (2019: 15 333).

| | 2020 Number of share options | 2020 Weighted average exercise price R | 2019 Number of share options | 2019 Weighted average exercise price R |
|---|---|---|---|---|
| **OPTIONS GRANTED TO EXECUTIVE DIRECTORS** | | | | |
| *JA Copelyn* | | | | |
| Balance at the beginning of the year | **374 180** | **117,53** | 299 262 | 123,86 |
| Options granted | **190 451** | **87,71** | 250 224 | 117,78 |
| Options expired | **( 123 956)** | **117,03** | - | - |
| Options vested and shares delivered | **-** | **-** | ( 175 306) | 128,69 |
| Balance at the end of the year | **440 675** | **104,78** | 374 180 | 117,53 |
| Unconditional between the following dates: | | | | |
| 26 September 2019 and 26 March 2020 | **-** | **-** | 123 956 | 117,03 |
| 28 August 2021 and 28 February 2022 | **250 224** | **117,78** | 250 224 | 117,78 |
| 29 August 2022 and 28 February 2023 | **190 451** | **87,71** | - | - |
| *JR Nicolella** | | | | |
| Balance at the beginning of the year | **161 049** | **117,58** | | |
| Options granted | **116 459** | **87,71** | | |
| Options expired | **( 44 006)** | **117,03** | | |
| Balance at the end of the year | **233 502** | **102,78** | | |
| Unconditional between the following dates: | | | | |
| 28 August 2021 and 28 February 2022 | **117 043** | **117,78** | | |
| 29 August 2022 and 28 February 2023 | **116 459** | **87,71** | | |
| *TG Govender* | | | | |
| Balance at the beginning of the year | **162 484** | **117,42** | 117 955 | 122,13 |
| Options granted | **115 866** | **87,71** | 83 792 | 117,78 |
| Options expired | **( 78 692)** | **117,03** | - | - |
| Options vested and shares delivered | **-** | **-** | ( 39 263) | 132,37 |
| Balance at the end of the year | **199 658** | **100,33** | 162 484 | 117,42 |
| Unconditional between the following dates: | | | | |
| 26 September 2019 and 26 March 2020 | **-** | **-** | 78 692 | 117,03 |
| 28 August 2021 and 28 February 2022 | **83 792** | **117,78** | 83 792 | 117,78 |
| 29 August 2022 and 28 February 2023 | **115 866** | **87,71** | - | - |
| *Y Shaik* | | | | |
| Balance at the beginning of the year | **158 382** | **119,55** | 95 113 | 124,20 |
| Options granted | **78 536** | **87,71** | 110 318 | 117,78 |
| Options expired | **( 48 064)** | **123,63** | - | - |
| Options vested and shares delivered | **-** | **-** | ( 47 049) | 144,61 |
| Balance at the end of the year | **188 854** | **105,28** | 158 382 | 119,55 |
| Unconditional between the following dates: | | | | |
| 19 March and 19 September 2019 | **-** | **-** | 39 695 | 125,02 |
| 26 September 2019 and 26 March 2020 | **-** | **-** | 8 369 | 117,03 |
| 28 August 2021 and 28 February 2022 | **110 318** | **117,78** | 110 318 | 117,78 |
| 29 August 2022 and 28 February 2023 | **78 536** | **87,71** | - | - |

* *Appointed 22 May 2019*

| | Direct beneficial | | Indirect beneficial | | Associates | |
|---|---|---|---|---|---|---|
| | Number | Percentage holding | Number | Percentage holding | Number | Percentage holding |
| **DIRECTORS' SHAREHOLDINGS** | | | | | | |
| 31 March 2020 | | | | | | |
| Executive directors | | | | | | |
| JA Copelyn | **-** | **-** | **6 468 177** | **7.5** | **-** | **-** |
| JR Nicolella* | **52 097** | **0.1** | **-** | **-** | **13 235** | **-** |
| TG Govender | **-** | **-** | **17 250** | **-** | **915 534** | **1.1** |
| Y Shaik | **8 808** | **-** | **-** | **-** | **-** | **-** |
| | **60 905** | **0.1** | **6 485 427** | **7.5** | **928 769** | **1.1** |
| 31 March 2019 | | | | | | |
| Executive directors | | | | | | |
| JA Copelyn | 149 051 | 0.2 | 6 468 177 | 7.2 | - | - |
| TG Govender | 216 706 | 0.2 | 17 250 | - | 698 828 | 0.8 |
| Y Shaik | 8 808 | - | - | - | - | - |
| | 374 565 | 0.4 | 6 485 427 | 7.2 | 698 828 | 0.8 |

* *Appointed 22 May 2019*

Other than as noted there were no changes in directors' shareholdings between 31 March 2020 and the date of issue of this report.

| | Board fees R'000 | | Salary R'000 | Other benefits R'000 | IFRS 2 expense R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **DIRECTORS' EMOLUMENTS** | | | | | | |
| **Year ended 31 March 2020** | | | | | | |
| **Executive directors** | | | | | | |
| JA Copelyn | - | | 7 696 | - | 5 397 | 13 093 |
| JR Nicolella* | - | | 4 000 | - | 2 152 | 6 152 |
| TG Govender | - | | 1 965 | - | 2 373 | 4 338 |
| Y Shaik | - | | 3 976 | - | 2 017 | 5 993 |
| **Non-executive directors** | | | | | | |
| JG Ngcobo | 1 302 | (1) | - | - | - | 1 302 |
| MF Magugu | 397 | (2) | - | - | - | 397 |
| ML Molefi** | 142 | (3) | - | - | - | 142 |
| MSI Gani | 1 113 | (4) | - | - | - | 1 113 |
| RD Watson | 1 318 | (5) | - | - | - | 1 318 |
| VE Mphande | 1 207 | (6) | - | - | - | 1 207 |
| CC September** | 51 | | - | - | - | 51 |
| SNN Mkhwanazi-Sigege*** | 187 | | - | - | - | 187 |
| L McDonald**** | - | (7) | 201 | 38 | 45 | 284 |
| | 5 717 | | 17 838 | 38 | 11 984 | 35 577 |

* *Appointed 22 May 2019*

** *Resigned 22 May 2019*

*** *Appointed 2 September 2019*

**** *Appointed 19 March 2020*

(1) Includes R106 345 audit committee fees, R25 445 remuneration committee fees, R25 445 social and ethics committee fees and R830 000 board fees paid by subsidiary companies

(2) Includes R82 508 remuneration committee fees

(3) Includes R19 084 audit committee fees, R19 084 social and ethics committee fees and R27 000 board fees paid by subsidiary companies

(4) Includes R143 795 audit committee fees and R655 000 board fees paid by subsidiary companies

(5) Includes R80 900 audit committee fees, R40 058 remuneration committee fees and R883 000 board fees paid by subsidiary companies

(6) Includes R893 000 board fees paid by subsidiary companies

(7) Paid by subsidiary companies

# REPORT OF THE REMUNERATION COMMITTEE
(CONTINUED)

| | Board fees R'000 | | Salary R'000 | Other benefits R'000 | IFRS 2 expense R'000 | Bonus R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **DIRECTORS' EMOLUMENTS** | | | | | | | |
| **Year ended 31 March 2019** | | | | | | | |
| **Executive directors** | | | | | | | |
| JA Copelyn | - | | 7 330 | 198 | 4 310 | 3 573 | 15 411 |
| TG Govender | - | | 1 908 | 67 | 1 854 | 806 | 4 635 |
| Y Shaik | - | | 3 787 | - | 2 146 | 1 600 | 7 533 |
| **Non-executive directors** | | | | | | | |
| JG Ngcobo | 1 073 | (1) | - | - | - | - | 1 073 |
| MF Magugu | 375 | (2) | - | - | - | - | 375 |
| ML Molefi* | 588 | (3) | - | - | - | - | 588 |
| MSI Gani | 1 099 | (4) | - | - | - | - | 1 099 |
| NM Mhlangu** | 199 | | - | - | - | - | 199 |
| RD Watson | 871 | (5) | - | - | - | - | 871 |
| VE Mphande | 1 213 | (6) | - | - | - | - | 1 213 |
| CC September*** | - | | - | - | - | - | - |
| | 5 418 | | 13 025 | 265 | 8 310 | 5 979 | 32 997 |

* *Resigned 22 May 2019*
** *Resigned 5 December 2018*
*** *Appointed 25 March 2019, resigned 22 May 2019*

(1) Includes R49 477 audit committee fees, R49 477 remuneration committee fees, R49 477 social and ethics committee fees and R628 000 board fees paid by subsidiary companies

(2) Includes R77 790 remuneration committee fees

(3) Includes R74 215 audit committee fees, R74 215 social and ethics committee fees and R143 000 board fees paid by subsidiary companies

(4) Includes R122 296 audit committee fees and R617 000 board fees paid by subsidiary companies

(5) Includes R25 574 remuneration committee fees and R549 000 board fees paid by subsidiary companies

(6) Includes R916 000 board fees paid by subsidiary companies

MF Magugu
Chairman: remuneration committee
24 August 2020

# REPORT OF THE SOCIAL AND ETHICS COMMITTEE

*Members: Mr JG Ngcobo (chairperson), Mr JA Copelyn, Ms RD Watson*

The Social and Ethics Committee assists the board in monitoring the company's performance as a good and responsible corporate citizen. This report by the committee is prepared in accordance with the requirements of section 72(4) to section 72(10) of the Companies Act (No. 71 of 2008), as amended (Companies Act), and regulation 43 to the Act and describes how the committee has discharged its duties in respect of the financial year ended 31 March 2020.

The committee comprises of two independent non-executive directors and an executive director, as appointed by the board. It is chaired by Mr JG Ngcobo, an independent non-executive director. To ensure that the committee fulfils its responsibilities, the composition of the committee has been expanded by a number of personnel from within the company, who are the drivers of the underlying functions of the committee and have been invited to join the meetings. In line with the Act, the invitees do not have voting powers. In terms of the committee's mandate, at least two meetings should be held annually.

| Committee member | No of meetings | Attendance of members |
|---|---|---|
| ML Molefi* | 1 | 1 |
| JA Copelyn | 3 | 3 |
| JG Ngcobo | 3 | 3 |
| RD Watson** | 2 | 2 |

* *Resigned on 22 May 2019*

** *Appointed on 22 May 2019*

There were no amendments to the committee's mandate during the year. The committee continues to review and report to the board on the sustainable development practices of the group. The committee is satisfied that it has fulfilled all its duties during the year under review, as further detailed below.

The social and ethics report of the company and of the group is set out on pages 53 to 72.

Mr JG Ngcobo
Chairperson: social and ethics committee
24 August 2020, Cape Town

## FRAUD AND WHISTLEBLOWING

During the period under review it was satisfied that adequate and appropriate provision was made for whistle-blowing.

No instances of fraud requiring action at a group level were raised or identified during the period under review.

## ETHICS

No material incidents and issues were brought to the attention of the committee and no unethical behaviour was noted during this period.

## COMPLIANCE

The group operates in a highly regulated environment. Where necessary, compliance officers have been appointed at each of the group's key operating subsidiaries and associated company levels for ensuring adherence to the various laws and regulations.

The committee is responsible for reviewing any major breach of relevant legal and regulatory requirements. The committee is satisfied that there has been no material non-compliance with laws and regulations.

The committee is also satisfied that it has complied with all its legal, regulatory and other responsibilities during the year under review.

## GENDER DIVERSITY POLICY

HCI adopted a gender and race diversity policy at board level during the previous financial year. At the date of adopting this Policy, the board's aim is to ensure that the board will comprise of at least 25% female directors and will at all times have a majority of directors who are "black people" as defined in the Broad-Based Black Economic Empowerment Act, 2003, as amended.

At 31 March 2020, the board is comprised of 27% women and 73% of the directors are classified as "black people".

## EMPLOYMENT PRACTICES

The company seeks to offer employment to newcomers in compliance with laws and codes regulating employment. As an investment holding company, HCI has a relatively small staff complement, with fewer than 50 employees. The majority are long-serving employees, with minimal rate of staff turnover. The company aims to remunerate its employees fairly and competitively, according to their capabilities, skills, responsibilities and performance levels.

HCI believes that all employees are entitled to equal opportunities to advance their careers and accordingly, it does not allow discrimination against employees based on gender, race, religion or any other factor in relation to such opportunities.

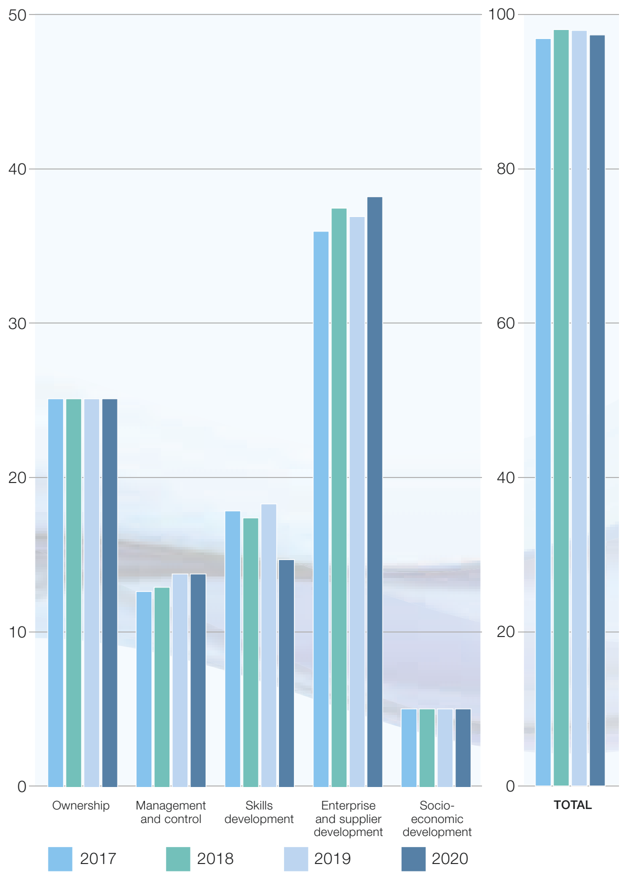
## BROAD-BASED BLACK ECONOMIC EMPOWERMENT

HCI is one of the most empowered companies on the JSE. The company has its roots in the trade union movement, and we are committed to broad based Black Economic Empowerment. The Southern African Clothing and Textile Workers' Union continues to be a major shareholder of HCI, and through this shareholding, more than 100 000 clothing and textile workers benefit directly from our investments.

HCI's performance in relation to Black Economic Empowerment is measured in terms of the Revised Codes published by the Department of Trade and Industry and is externally audited. HCI has once again been rated as a Level 2 contributor with strong performances in the fields of Ownership, Socio Economic Development, Skills Development and Enterprise and Supplier Development.

We are proud to continue our strong tradition of Black Economic Empowerment. Empowerdex publishes an annual survey of BEE performance for listed companies in South Africa. In 2019, HCI was ranked sixth among listed companies reporting under the Generic Code. Tsogo Sun achieved first place in the Tourism sector. We remain committed to Black Economic Empowerment and will continue to invest the appropriate resources in this regard.

HCI BEE scores by category – 4 year review



## HEALTH AND PUBLIC SAFETY

The company strives to provide a safe and healthy environment by identifying risks and ensuring that controls designed to mitigate these risks are effective and complied with. Health and safety officers have been appointed at each of the group's key operating subsidiaries. The committee is satisfied that no major health and safety risks, except for Covid-19, have been identified for the period under review.

**Measures implemented within the Group to prevent and/or limit the spread of Covid-19 in the Workplace:**

- HCI and its subsidiary companies have instituted policies and standard operating procedures, based on risk assessments and according to the regulations issued in terms of the Disaster Management Act, 2002 and industry Codes of Good Practice, to ensure the safety of employees; bus passengers; visitors and workers to properties, residential tenants and contractors on the mines. The GABS Comprehensive Risk Assessment Protocol was officially endorsed by the Department of Labour for GABS to continue its operations during lockdown. The code of practice at HCI Coal was compiled as per the guidelines of the Department of Mineral Resources;
- Business dependent, Covid-19 task teams and co-ordinators have been established and compliance checklists have been developed in adherence to lockdown level protocol. The implementation is monitored and updated so as to minimise the spread of Covid-19; these include the requisite temperature testing, wearing of masks, social distancing of employees and the disinfecting of areas where Covid-19 cases were confirmed. After each incident contact tracing is done as per the protocol and the National Institute for Communicable Diseases ("NCID") informed;
- Where possible, employees are working from home. Split teams and shifts have been introduced to reduce the number of employees in office; communication has been identified as vital to the smooth running of the operations and to ensure continuous awareness of regulations, policies and procedures in the workplace. In businesses with semi and continuous operations, shifts have been restructured to minimise cross over between employees and teams so that the number of employees onsite are reduced;
- In businesses with in-field employees, such as reporters, cameramen, producers and anchors, teams are allocated so that there is no cross over for the duration of the lockdown. In addition, all in-field teams are allocated personal protective equipment ("PPE") and an in-field kit to ensure good sanitization and protection.

*Inner-city residential portfolio*

The management of Covid-19 in the inner-city residential portfolio has been challenging. We have over 1 000 residential units and 60 retail stores, including grocery outlets. For our residential tenants, lockdown took place inside our buildings, with families largely confined to their units but sharing lifts, entrances, turnstiles and other public areas. We made enormous efforts to support our tenants and to prevent the spread of the virus in our buildings. The discounts given to residential and selected commercial tenants from April to June 2020 was a lifeline for many families and businesses and helped to ensure that we were able to keep our collection levels relatively high despite the difficulties facing our tenants.

To prevent transmission and manage cases, we introduced a strict regime of screening and cleaning including specialised deep cleaning teams and changed our biometric access system from fingerprint touch to facial recognition. Nurses have been stationed in each building, 5 days a week, to carry out screenings, assist any tenant displaying symptoms, arrange for tests and help manage cases. Where COVID-19 positive cases were in quarantine in the buildings we offered ongoing support including purchase and delivery of groceries. We had a small number of Covid-19 positive cases in each of our buildings among staff and tenants, and sadly suffered one tenant fatality. To the best of our knowledge we have not experienced any transmission within the buildings.

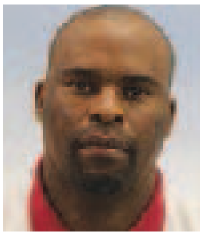
We approached the courts to compel the City of Johannesburg and various Traders Associations to implement COVID-19 containment measures in an informal market near one of our buildings; the case was settled in our favour.

**In memorium**

Covid-19 has created an increased awareness of our inability to control our exposure to infections. Notwithstanding all the controls that have been implemented across the group, the pandemic has resulted in financial, social and practical hardships to many of our stakeholders, a number have sadly paid the ultimate price.

We are saddened by the loss of 9 employees in the group as a result of Covid-19. Their presence will be sorely missed by all.

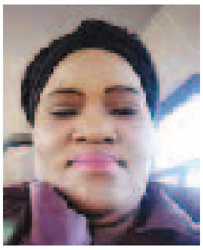
In this sorrowful time, we to wish express our sincere condolences to their family, friends and co-workers. May your time with them and memories bring you peace, comfort and strength.



**Lungile Tom** (46)
Cameraman (eNCA)

Lungile had a larger than life personality; a big guy with a soft heart. He was a brilliant cameraman and journalist, an acute observer and someone who took great interest in every story he covered but was especially passionate about politics and Parliament.

He was a loyal friend; he loved dancing and was known to play his music at full blast. He made lasting friendships in the nearly seven years working at the company. Lungile is survived by his mother, wife, children and all those he loved.



**Nomathemba Sara Jane Zakwe** (49)
Double needle machinist
at Custom Bulk Bags (Deneb)

Sarah Jane was a loving, down to earth and honest individual. During her 13 years of service she was nominated as employee representative and thereafter as a shop steward for Southern African Clothing and Textile Workers' Union (SACTWU).

She was a member of the governing body for two schools in Hammarsdale. As a good wife and mother, she always fought for the rights of all.

**Michael Wilson** (59)
Graphic Designer (eNCA)

Mike has dedicated his craft with passion and diligence to the eNCA business over the last 14 years.

He was a great mentor to the younger graphic designers imparting his wealth of knowledge. He will be remembered for his dry sense of humour and personable nature. His presence in the Newsroom will be sorely missed.

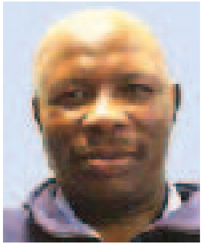
**Zindisile Joseph Mhlani 'Blom'** (55)
Training Officer
Trollope Mining Services –
Contractor at Palesa Coal. (Palesa Coal)

Blom was lively and playful, he became a dear friend to many during his employment for 6 years. His presence and zest for life will be deeply missed.

**Mxolisi "Sollie" Mfengwana** (45)
Duty Bus Driver (GABS)

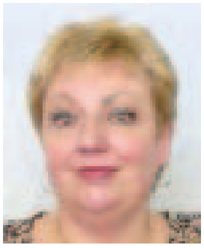
Sollie was loved by all his passengers during his 7 years of service; his dream was to become an Inspector or Despatcher.

His passengers were like his family; going the extra mile to load their Smartcards when he had a break at the terminal points, to save them the extra effort. At the depot, in his free time, he enjoyed playing pool and cards with his colleagues.



**Hamilton Mziwetemba Ngovela** (60)
Duty Bus Driver (GABS)

Hamilton, apart from his 11 years of service, was a community leader and preacher. He was positive about life and would offer guidance to younger drivers about all aspects of their duties. His family always came first followed by his passengers.



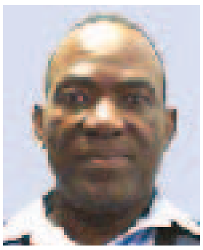
**Claudia Hohenleitner** (49)
Secretary (GABS)

Claudia was the eyes and ears of Golden Arrow's entire engineering division where she was employed for the past 5 years.

She was a vivacious and spirited person who was always willing to help and will be dearly missed.

**Christopher Owen Vermeulen** (59)
Duty Bus Driver (GABS)

Christopher was a respectable gentleman who generally kept to himself, however was always available to assist when called upon. He got on well with his colleagues and always showed respect to others. He was employed at GABS for 3 years.



**Ziwezile Ngomana (**52)
Duty Bus Driver (GABS)

Ziwezile was a good-natured person who was passionate about his work and was well-liked by all of his colleagues. He was a long-term employee having worked for the company for 21 years.

### eMEDIA COVID-19 RELIEF CAMPAIGN

When the South African national lockdown of an initial 21 days, started on 26 March in response to the COVID-19 pandemic, the country, along with the rest of the world, entered unknown territory.

As the long-term seriousness of the situation became clearer, re-enforcing the social inequalities within our country, South African civil society was faced with the challenge of how to respond to the rapidly increasing levels of poverty, hunger and desperation in the poorest of our communities.

In response, HCI Foundation began working in partnership with eMedia, who approached the South African public directly in a drive to raise funds to be used for a national food relief campaign, with the aim of distributing food parcels to some of the most vulnerable families across the country, especially those supporting children and the elderly. The initial target we hoped to raise was R10 million.

The generosity of the South African public's response completely exceeded our expectations and the total amount raised during the six weeks of the campaign was an astounding R19 million.

In order to make sure that every cent of donated money reached the people for whom it was intended, the Foundation worked with The Lunchbox Fund, who acted as the food parcel distribution partner for a network of partner organizations we know well. All these organizations are deeply committed to supporting the communities they work with and have strong track records in their own areas. With the help of the network of NGOs, food parcels reached some of the most vulnerable members of our society in both rural and urban settings.

The results speak for themselves.

- Number of boxes distributed: 51 238

  *by*
- 122 NGOs

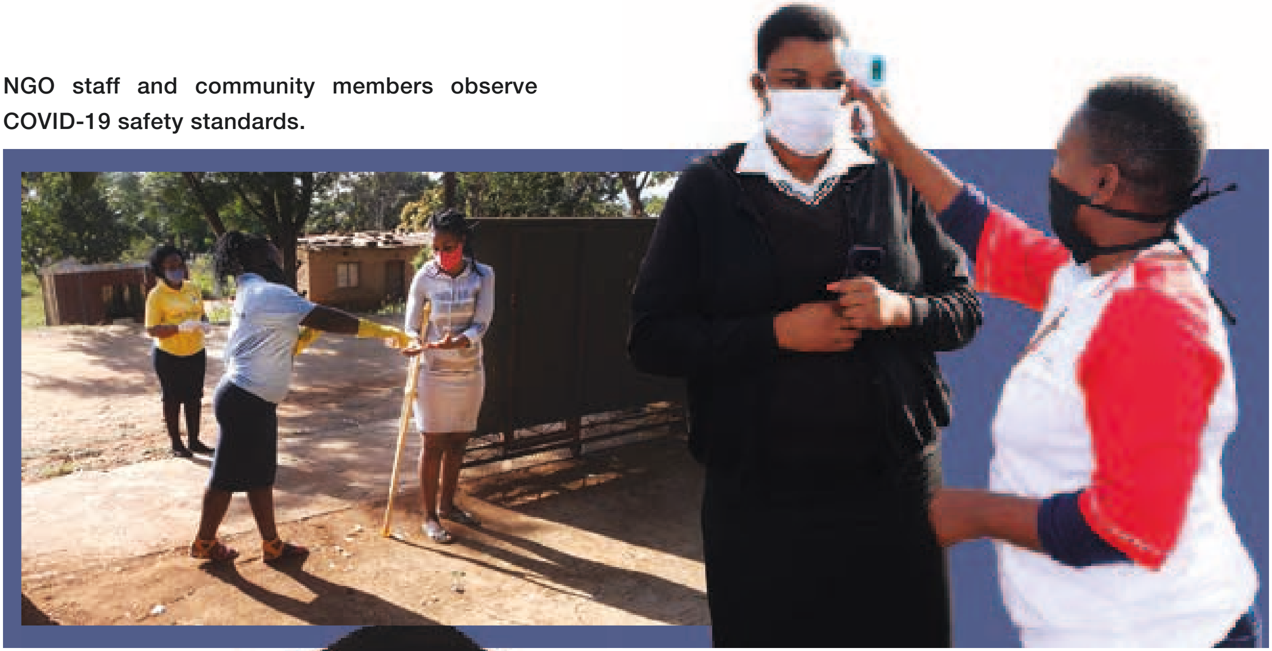
  *reaching*
- 204 952 people (average of 4 per household)

  *in*
- 9 provinces – rural and urban

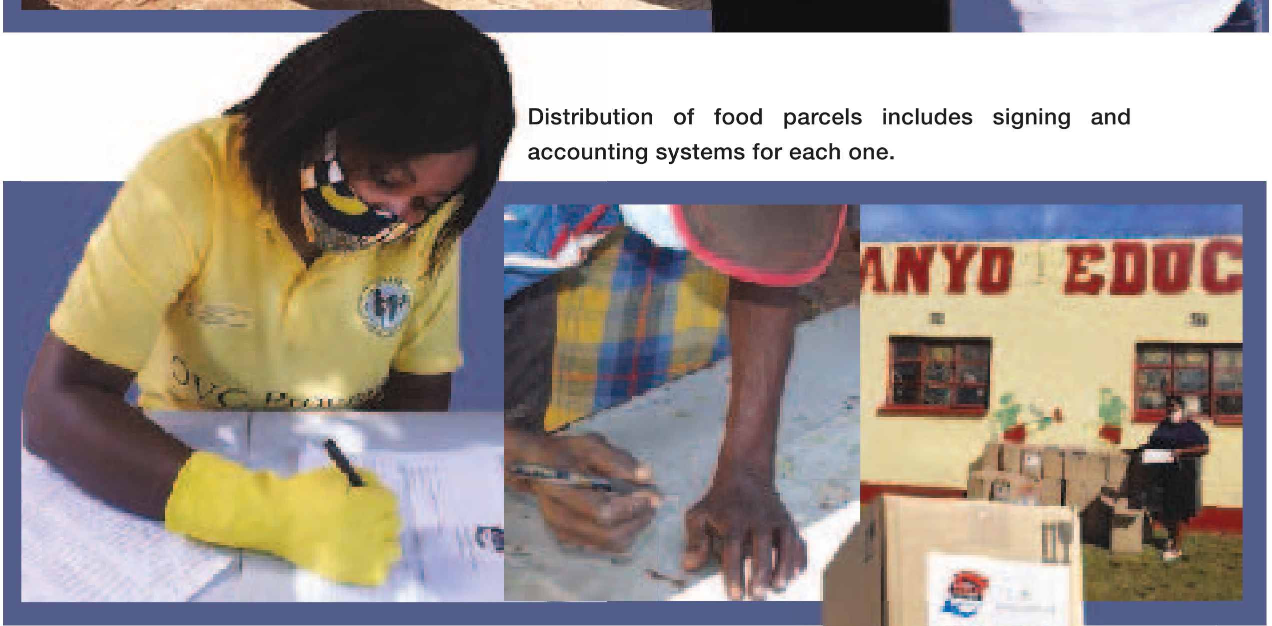
The pictures below tell the story of what happened in some of the communities we were able to reach with the help of our network of partner organisations.

*Food parcels are counted and stored safely for distribution.*

NGO staff and community members observe COVID-19 safety standards.



Distribution of food parcels includes signing and accounting systems for each one.



Food parcel recipients return home.

## ENVIRONMENTAL SUSTAINABILITY

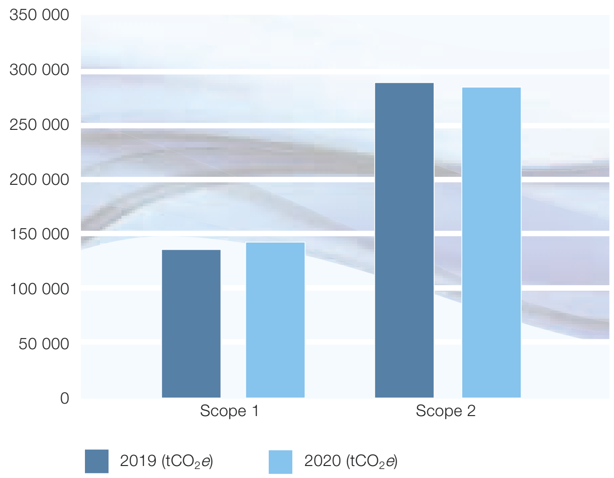
HCI is concerned about climate change and we are actively seeking to reduce our carbon emissions across the Group. We are also working to reduce water usage, especially in the Western Cape. HCI reports annually to the Carbon Disclosure Project, an independent international platform for reporting corporate environment impact. We report on both carbon and water.

### Carbon emissions:

HCI reports on the Scope 1 and 2 emissions of all of its subsidiaries. Scope 1 emissions are direct emissions produced by the reporting entity and are generally associated with the combustion of fossil fuel. Scope 2 emissions are indirectly derived from energy supplied by third parties and principally consist of emissions associated with the use of electricity. Scope 3 consists of indirect impact comprising carbon emitted in the product value chain but not directly produced by the company. Scope 3 emissions are reported on a voluntary basis to the CDP but not included in the figures reported here.

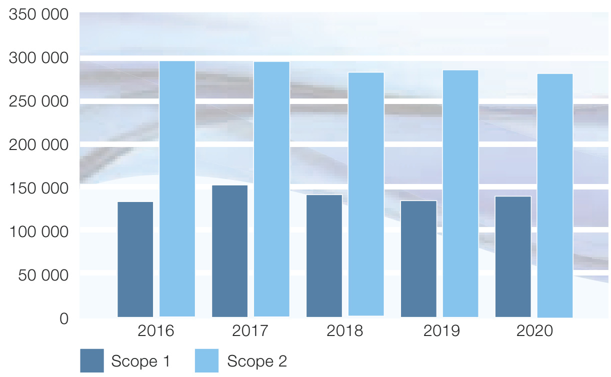
Each year we restate our baseline to take account of structural changes that have taken place over the past year, such as the disposal or acquisition of assets. This restatement is calculated in terms of the Greenhouse Gas Protocol. Restatements this year amount to less than 1% of emissions. Where inter-year comparisons are made in the figures below, these are based on the restated 2019 figures.

The HCI Group's total Scope 1 and 2 emissions for 2020 amount to an estimated 430 069 tonnes of CO2, which is a 0,5% increase over 2019. Scope 1 emissions rose by 3% whereas Scope 2 declined by 1%.



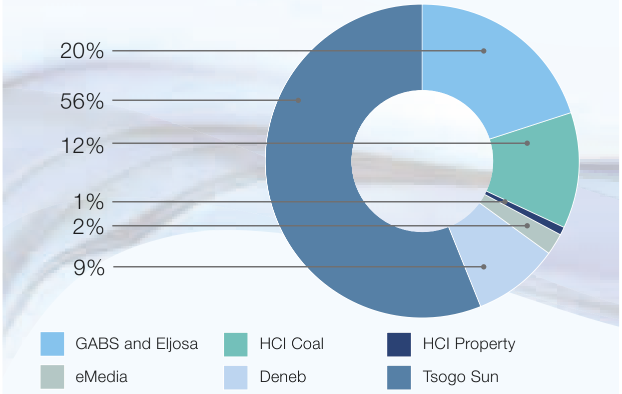

Over a 5 year period there has been a similar pattern with a slight increase in Scope 1 and a slight decrease in scope 2. Overall, combined Scope 1 and 2 emissions have decreased by 2% over that period.

**HCI Scope 1 and 2 emissions 2016-2020**




Within the HCI Group, the largest producers of carbon emissions are Tsogo Sun, HCI Coal, Golden Arrow Bus Services and Deneb. This reflects Scope 1 and 2 combined.

**Contribution of subsidiaries to HCI Group emissions**




For the year under review:

- Tsogo Sun was responsible for an total of 240 596 tons of carbon which is a 1% reduction on 2019. Over 90% of Tsogo's emissions were Scope 2 emissions arising from electricity usage in its hotels and gaming facilities. Tsogo Scope 1 emissions are largely associated with diesel generators used to produce electricity during power outages, of which there were fewer this year. Tsogo has consistently reduced its energy usage each year for over ten years, as a result of ongoing energy saving initiatives.
- HCI Coal was responsible for a total of 49 655 tons of carbon, of which 79% were Scope 1 emissions. HCI Coal uses diesel to power its mining vehicles and uses both diesel and electricity in its processing plants (washing, crushing and screening).
- The Deneb group includes industrial manufacturing, textile manufacturing as well as industrial properties. In the year under review, Deneb was responsible for 38 492 tons of carbon of which 31% were Scope 1 emissions. Emissions were flat year on year.

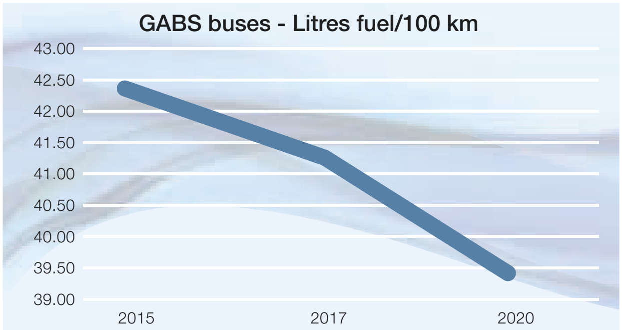
- Golden Arrow Bus Services ("GABS") and sister company Eljosa were responsible for 86 253 tons of carbon generated through the use of diesel to power their buses. Together, GABS and Eljosa are responsible for 58% of HCI's Scope 1 emissions.

It should be noted, however, that in the absence of the public transport they provide, greater emissions would be generated if commuters had to use private transport.

Both GABS and Eljosa are making progress in decreasing their fuel usage and associated emissions. This is achieved primarily through the annual introduction of new, more fuel efficient buses to their fleets.

Over the last 5 years, GABS has reduced diesel used per kilometre by 7%. This equates to a reduction of over 1 900 000 litres of diesel per year or 1 400 tonnes of carbon dioxide equivalent (tCO2e). For its efforts, GABS made a successful application for the energy efficiency tax incentive and will continue to do so annually.

In the year under review, the combined Scope 1 emissions of GABS and Eljosa increased by 6% despite improvement in fuel efficiency. This is because of an 8% increase in distance travelled.




**Water use and water discharge:**

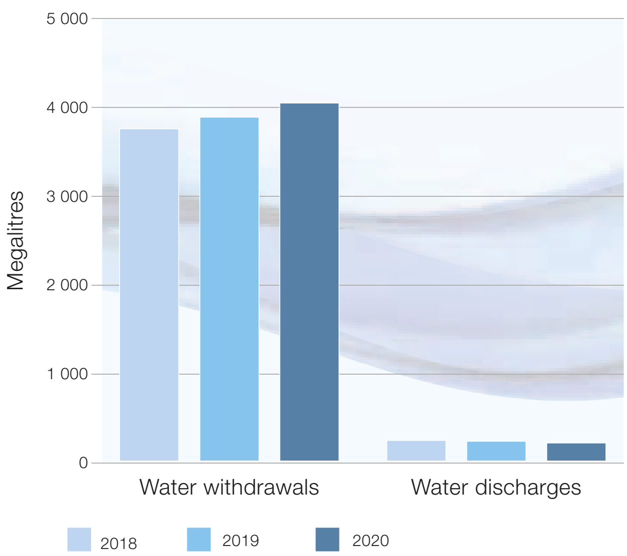
South Africa is a water scarce country facing growing demands on our limited water resource. HCI takes its water conservation responsibilities seriously, reporting on both water use as well as water discharge from our various facilities.

HCI's total water withdrawals for FY 2020 amounted to 4 040 Ml. This is an annual increase of 4%. HCI 's total water discharges for 2020 amounted to 212 megalitres. This is a decrease of 8%.

The largest water users in the HCI Group are Tsogo Sun, HCI Coal, Deneb and HCI Properties as can be seen below.

Tsogo is the largest water user in the Group but has reduced its water use steadily especially in the Cape Town area where the company now runs a desalination plant that draws in groundwater and seawater and purifies it for various uses. HCI Coal is also a signifincant user, especially at the coal washing plant located at Palesa mine. However, HCI's Coal's water comes from the mine pits as well as from boreholes and stormwater. No water is withdrawn from municipal sources.

**HCI water withdrawals and water discharges 2018-2020**




The only HCI company that produces significant water discharges is Deneb. These are associated with textile and other manufacturing and are carefully managed. Effluent discharges are regulated by the Department of Water Affairs and local authorities and are monitored internally. Deneb's discharges will continue to reduce in line with changes in manufacturing output. This year Deneb's discharges decreased by 9% in line with reduced textile output.

# REPORT OF THE SOCIAL AND ETHICS COMMITTEE
(CONTINUED)

## SUSTAINABILITY INITIATIVES

The HCI Group has an ongoing focus on sustainability. We aim to reduce our impact on the environment and to contribute to environmental innovation. Our priorities are to reduce greenhouse gas emissions, improve energy efficiency and reduce water usage. Some examples are given below.

**Golden Arrow Bus Services ("GABS"):**

GABS has focused on improving the fuel efficiency of its bus fleet. Every year GABS introduces new, more fuel-efficient buses which use less diesel and produce fewer emissions. GABS has also focused on increasing fuel efficiency by optimising maintenance practices and conducting driver training.

The focus on improving fuel efficiency has resulted in a 7% reduction in diesel used per kilometre over 5 years. This equates to a reduction of over 1 900 000 litres of diesel per year or 1 400 tonnes of carbon dioxide equivalent ($tCO_2e$). For its efforts, GABS made a successful application for the energy efficiency tax incentive and will continue to do so annually.

GABS has also been making use of renewable energy in its depots. The rooftop solar system at Arrowgate Depot generates approximately 22 000 kWh per month which is over 10% of the depot's electricity use. Similar opportunities are being explored at other facilities. GABS is also piloting solar powered mobile ticketing machines. Conventional ticketing machines use the vehicle's diesel-generated power to charge the battery that powers the ticketing machines. The solar system uses energy from the sun to charge a lithium ion battery ensuring that energy is available to dispense tickets.

Water is also a major concern for this Cape Town based company. To address water shortages, GABS has installed a pilot bus washing system. This allows water to be captured, treated and recycled after each wash so that 80% of the water can be reused. The system also cleans the undercarriage each time, making it easier for technical staff to identify areas of concern.

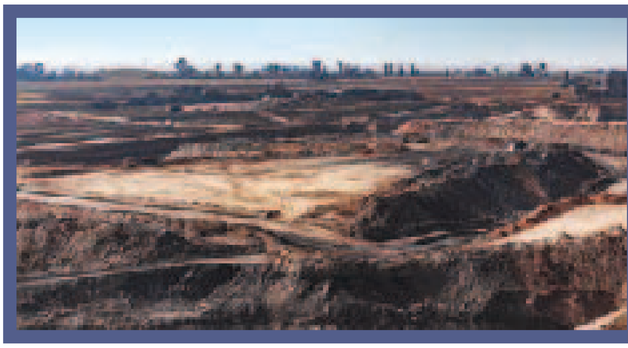
**HCI Coal:**

Mining inevitably impacts on the environment - but this impact can be mitigated if rehabilitation is integrated into the mining process rather than left to the end of the life of the mine. This is the approach taken at HCI Coal's open-cast Mbali Mine.

As areas are mined they are immediately rehabilitated. Rehabilitation activities are planned every three months. This involves replacing material into the mined-out area and growing appropriate surface vegetation. In the past year, 19 hectares of previously mined land were rehabilitated.

The transformation achieved is clearly visible in the aerial photographs which show the improvement achieved in less than a year.

The main objective is to ensure that the final landform is free-draining and minimises erosion risk. Once rehabilitation is complete, the land will be used for livestock farming.



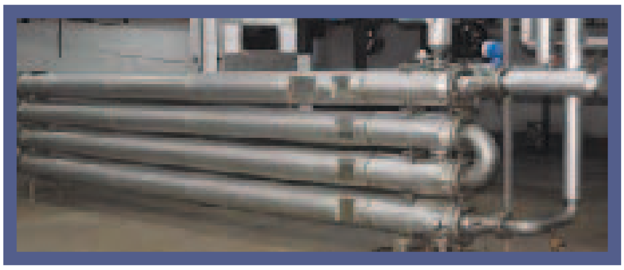
**HCI Properties:**

HCI Properties has installed rooftop solar systems at Kalahari Village Mall in Upington and Gallagher Estate in Johannesburg. The installation at Kalahari Village Mall provides enough renewable energy to meet 20% of the mall's electricity demand while also providing shaded parking for cars. At Gallagher Estate, the solar system supplies about 10% of the estate's electricity demand.

**Deneb:**

A number of companies in the Deneb stable are involved in sustainability solutions. Premier Rainwatergoods ("PRG") has installed a 50kW solar system that has reduced its reliance on the grid.

In some cases, Deneb companies have been able to realise both energy and water savings from the same initiative. Frame Knitting Manufacturers ("FKM") is a good example of this. To reduce both water and energy usage, FKM installed a custom-made, locally-designed heat recovery system. Hot water is used in the process of dying fabric. At the end of the process, hot water is drained from the fabric. Prior to the installation of the heat recovery system, this water would have been classed as effluent and be sent to the municipal treatment works. The heat would be lost. The new system allows FKM to recover the heat from the drained water and to recycle the water itself. This represents a significant saving of both energy and water, and lessens the burden on the municipality.



**Tsogo Sun Hotels ("Tsogo"):**

Tsogo has made great strides in saving water and electricity over the last few years.

Water is essential to the hospitality business and is used constantly in kitchens, bathrooms, laundry and landscaping. Water shortages in Cape Town in recent years spurred the business to find new ways to reduce water usage and secure alternative supply. Here are some examples from the Western Cape:

Stay Easy Century City implemented a rainwater capture system which is used to supply water for irrigation and cleaning.

Southern Sun Newlands upgraded boreholes and installed new water storage tanks. This allowed the hotel to be largely independent of the municipal water grid.

Perhaps the most innovative example is the Cape Town desalination plant installed by the Hospitality Property Fund, which is a subsidiary of Tsogo. The desalination plant takes in brackish water (a mixture of seawater and groundwater), removes contaminants and salt and sterilises the water, supplying clean water to several hotels. This reduces pressure on the City of Cape Town's water supply, allowing the municipality to use municipal water where it is needed the most.

## INTRODUCTION

Learning how to look after our world now and create sustainability for future generations has become a practical and moral imperative for us all.

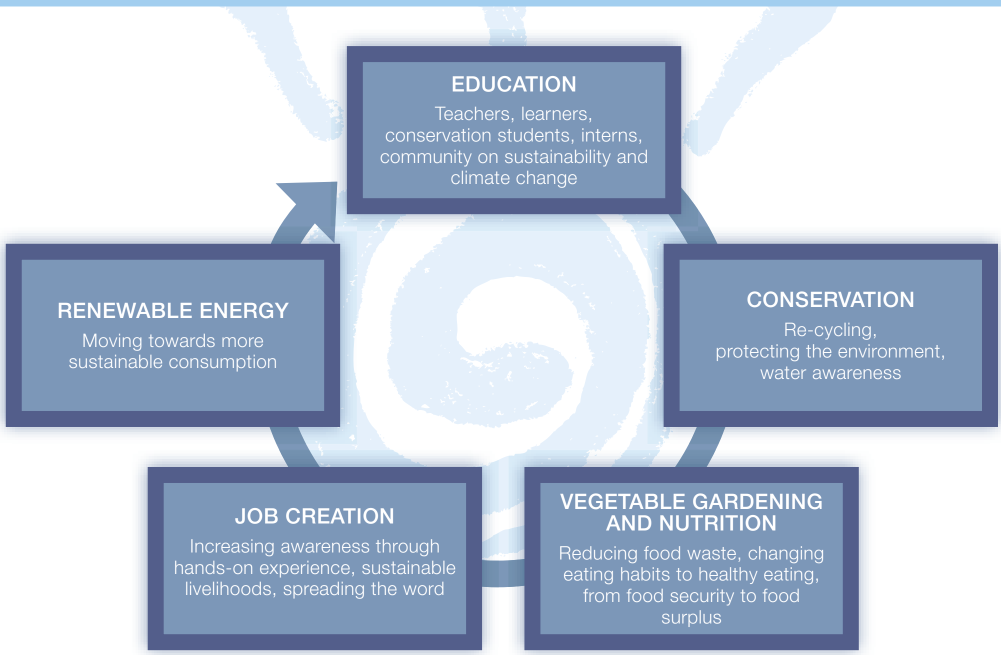
IN 2019/2020 The HCI Foundation responded to this challenge by promoting connections and encouraging shared learning amongst the environmental programmes that we support.

Organisations have pooled information and learnt from each other. Locally inspired solutions have been used to address environment-related challenges in communities. Skilled graduates and students from our Bursary Programme have worked as interns in organisations we support and have participated in university-led initiatives, both to share their knowledge and to gain valuable working experience.

Caring for the environment begins with education: within communities and community-based organisations; at universities across the country and inside families, where children are often the most powerful agents of change.

The HCI Foundation believes in the strength of a collaborative approach to the human challenges we all face and has therefore progressively targeted its environmental spend to support hands-on experiential learning across all age groups, in tandem with the sharing of expertise to encourage integration of knowledge and experience.

The stories that follow illustrate what has happened in some of the communities where we work in partnership.




The Environmental Learning Cycle diagram shown above is holistic.

It shows how organisations and individuals extend the focus and range of their environmental engagement as they move from one stage to the next, to reach a more complete understanding and vision of their way forward.

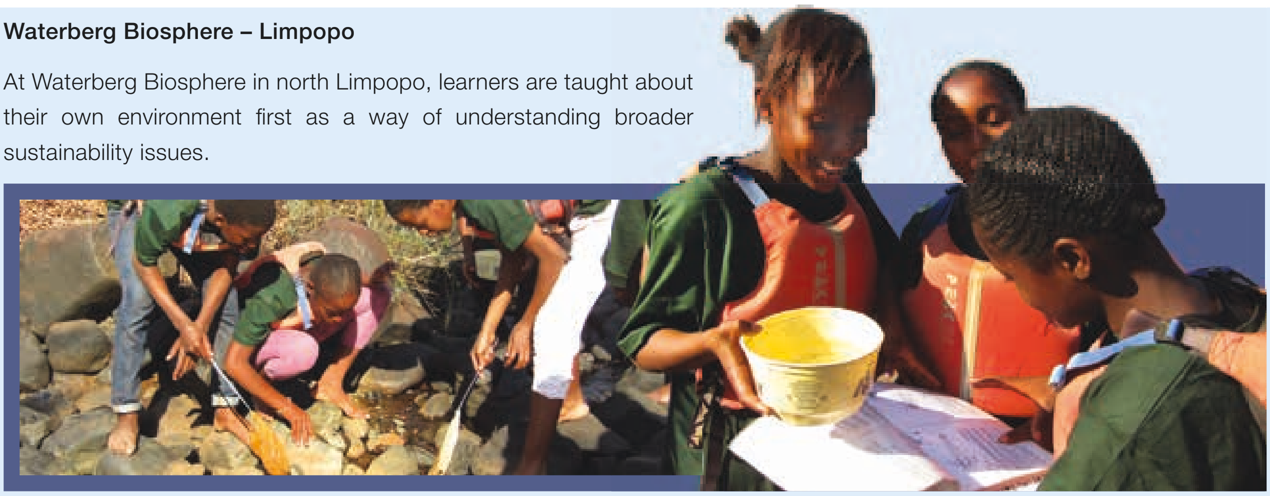
Regardless of the point at which communities enter the cycle, as they gain knowledge and experience the cycle of learning repeats itself.

## EDUCATION

Environmental education on sustainability and climate change needs to reach teachers, learners, conservation students and interns and, most importantly, local communities in order to be effective and far-reaching.

**Waterberg Biosphere – Limpopo**

At Waterberg Biosphere in north Limpopo, learners are taught about their own environment first as a way of understanding broader sustainability issues.



**Ndumo Game Reserve – KwaZulu-Natal**

At Ndumo Game Reserve in KwaZulu-Natal, learners from Grades 3, 7 and 8 are brought into the classroom for lessons on the environment before applying learning in their own communities.

*Arbor Day tree-planting*

**Daktari Bush School and Wildlife Orphanage – Limpopo**

At Daktari Bush School near the Kruger National Park in Limpopo, armed with lessons on the importance of water to biodiversity, learners went out to see what natural life they could find locally.

### African Conservation Trust, Water Explorer – KwaZulu-Natal

Luhana Primary School learners in Bulwer built a pond at school to encourage bio-diversity in their neighbourhood.

Learners from Nlonhlweni Primary in Ladysmith planted Spekboom and learnt about climate change and the greenhouse effect.


*The finished pond*

*The mature pond*

### Earthchild – Western Cape

Learners prepare food in the classroom for the worms in their worm farm. Keeping a class worm farm also teaches them about soil, growing crops and healthy eating.

### Endangered Wildlife Trust – KwaZulu-Natal

At the Endangered Wildlife Trust project in the Southern Drakensberg Mountains, local stakeholders were brought together at forums to address environmental challenges such as littering, water pollution, the threat of alien invasive species and poaching.

Eco-future interns underwent a two-day bee-keeping training to support the work of the Drakensberg Indigenous Honey Producers group, which has been producing locally made honey over the last year.

### Nicolle Thobeka Mathebula's story

Nicolle Mathebula always knew that she wanted to study the environment and at the age of 20 completed her undergraduate BSc in Biological and Environmental Science at North-West University.

During her Honours year, also at NWU, she participated in a study on mitigating the risks of untreated surface water, which many South Africans still rely on for their daily water needs, running the risk of e-coli and other infections. HCI Foundation was one of the funders of this study.

Nicolle says she was never one of the best students at High School but has an important message for learners everywhere.

"You do not have to be the smartest to achieve anything. Set your mind to achieving your goals and make use of all the opportunities you are presented with."

## CONSERVATION

Once the lessons of environmental education programmes have been absorbed, leading to increased levels of awareness of the connectedness of all life, practical follow-up to help conserve the environment in tangible ways is the next step.

Organisations have responded by developing re-cycling initiatives, protecting wildlife, initiating water-wise and solar programmes and spreading the word more widely.

### Ndumo Community Project – KwaZulu-Natal

At Tshwane University of Technology's (TUT) Environmental Education Centre in Ndumo Game Reserve, TUT Nature Conservation students play a key part in the education programmes for local schools.

Due to the acute water shortage in the area, emphasis is placed on water quality and scarcity and the importance of wetlands.

*TUT student Tumelo Sathega works with school learners*

*Interpretive visit to Nyamiti Pan.*

### African Conservation Trust – KwaZulu-Natal

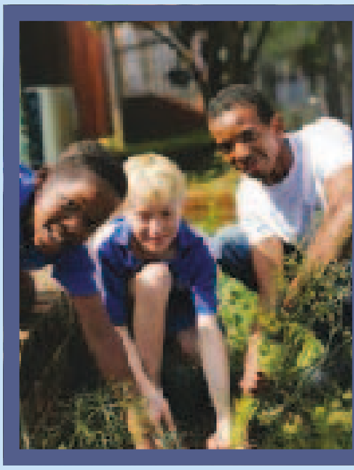
Installation of Tippy taps at school is great way of getting everyone to save water; the manufacture of solar ovens and finding ways to recycle plastic is good fun and educational.


### Waterberg Biosphere - Limpopo

The Waterberg community works together to clear rubbish for recycling and re-use.

### Daktari Bush School and Wildlife Orphanage – Limpopo

At Daktari Bush School, small groups of children participate in a weeklong environmental club where they learn how to care for injured and abandoned animals. Sometimes, if they have not become too dependent on humans, animals can be rehabilitated and released back into the wild.



### Mduduzi Chune's story

Mduduzi Chune was funded through the Foundation's Graduate Development Programme to spend 2020 as an intern with African Conservation Trust's Water Explorer team.

His love of the natural environment started at the age of nine when he became curious about weather systems, in particular, cloud formation. He worked hard at school and won a scholarship to study Environmental Science at the University of KwaZulu-Natal.

Mdu says "Working with the Water Explorer team has allowed me to explore my subject hands-on and apply my knowledge to different environmental issues. This makes me more eager and enthusiastic about conserving and sustaining the environment for future generations. Working with Water Explorer's young environmentalists excites me as I see their growing enthusiasm for sustaining the environment for the future.

If we look carefully, nature has all the answers we need."

## VEGETABLE GARDENS AND NUTRITION

Small scale vegetable growing and changing eating habits to healthy eating improves food security within communities. Reducing food waste and re-distributing surplus food also contributes to more widespread good nutrition.

### Litha Primary School – Western Cape

At Litha Prima School in the Western Cape, the whole school got involved in establishing a food garden which is now flourishing and provides learners and staff with fresh vegetables every day. As well as learning about how to grow food, learners and their families have understood the importance of healthy eating.

### African Conservation Trust, ECD centres and homes – KwaZulu-Natal

At Kwalobe, east of Mkhuze Game Reserve in KZN, parents of children at the Isiqalo Sethu Creche were selected for food garden training because of the success of the creche's garden.

*Preparing the soil*

*Training underway*

*Getting ready to plant*

### Ndumo Community Project – KwaZulu-Natal

The Ndumo Community Project team worked with four schools in Northern Maputaland to set up vegetable gardens.

*Learners help prepare the soil for planting Spekboom*

**Food Forward SA – Western Cape**

Working since 2018 to reduce agricultural surplus, Food Forward SA's Second Harvest Programme recovers agricultural produce that would otherwise go to waste and distributes it to 560 beneficiary organisations.

In this way more than 280 000 individuals are reached nationally through ECD centres, skills development centres, women's shelters, old age homes and after-school programmes and regularly receive fresh, healthy, vitamin rich fruit and vegetables.

**Fatima Jili's story**

Fatima Jili completed her undergraduate degree at the University of University of KwaZulu-Natal in 2019.

Whilst at university she volunteered at ENACTUS UKZN, a student entrepreneurial organisation where she took on the role of project secretary for Sack Space.

Sack Space addresses food insecurity by introducing an innovative vertical farming method using discarded sacks. This method upcycles the sack and saves 60% of water compared to conventional farming. It also saves space, as one sack holds a minimum of 23 vegetable seedlings. The project was able to successfully grow spinach, beetroot, onions, turnips and lettuce using this method.

Fatima says "doing little things that matter can go a long way and we must take action to avoid climatic shifts."

Beyond providing healthy food, she says the most important thing about the Sack Space project was

"...igniting the spark and passing the torch of hope in communities by creating something that inspires them."

## JOB CREATION

Increasing awareness, in combination with knowledge and skills developed through hands-on experience, eventually leads to possibilities for sustainable livelihoods within communities.

**Grootbos Foundation – Western Cape**

Located in the beautiful Overberg, the Grootbos Foundation runs environmental education and upliftment programmes for the communities of Gansbaai, Masakhane and Blompark.

Bright Futures in Eco-tourism, a training course for women in Masakhane, saw 12 graduates in 2019. With their new skills, these women will be able to play an active role in bringing much needed responsible tourism into the area.

### Thanda Vegetable Garden Programme – KwaZulu-Natal

Thanda has been developing its own irrigation systems to improve water harvesting, storage and usage over the last 10 years. This in-house expertise has gradually supported small-scale farmers to increase their yields sufficiently to access local market outlets and generate regular incomes.

*Jojo tanks at Dweshula*

*200 kgs of green pepper supplied to a local greengrocer in Hibberdene.*

*Dweshula vegetable garden*

### Sandisile Plaatjie's story

Sandile Plaatjie grew up in a rural settlement in the Eastern Cape, where small scale agriculture was a way of life which helped with food security as well as creating cash flow in the community. After receiving his National Diploma in Agricultural Animal Production in 2017, the decision to study for his Honours in Agricultural Management at Nelson Mandela University was an easy one for him, and he was helped by a study bursary from HCI Foundation.

Studying led him to doubt the sustainability of many of the large-scale agricultural production systems as well as to be critical where he saw their negative impact on the environment.

Sandile says "I have a strong belief that my knowledge, expertise and skills will one day be useful, in creating a sustainable natural and agricultural environment, which is why I decided to venture into agribusiness on my own, through initiating my very own project. With this project I aim to be mainly dealing with pigs, from breeding to selling fully grown porkers. To also spread risk and to reduce stress financially, I am planning to diversify my project to include vegetable enterprises. The aim of this is to also use some of the non-marketable vegetables or vegetable products, like leaves and greens, as feed for the pigs."

## RENEWABLE ENERGY

Some of the highlighted projects have explored the technicalities of using renewable energy for more sustainable consumption.

### Thanda Aftercare and Community Centre – KwaZuluNatal

Thanda Community Centre in Hibberdene set up a solar powered computer lab to enable its after-school students to have internet access. They have also installed a bio-digester to generate gas for cooking.

### Lepalala Wilderness School – Limpopo

Lepalala Wilderness School uses solar energy to power their computers and lights as well as to pump water. Solar energy is stored in batteries ready for use when needed.

### Project 90 by 2030 – Western Cape

Project 90 by 2030 has taken a different approach. Having started their work in the solar field in the Eastern Cape in 2012, their solar lightbox building programme now operates in Khayelitsha in the Western Cape to encourage and train a new generation of climate change youth leaders.

The project makes solar energy accessible and relevant and uses this lead-in to help develop a broader understanding of the complexities of climate change.

In this way young people are guided and encouraged to use technology to generate sustainable solutions to a range of energy-poverty problems faced by their families and communities.

*Fiola Lihle Booi and Ayakha Melithafa with their completed solar lightboxes*

*RIGHT: Kuhle Mlandeli assembles her Solar Lightbox at COSAT High School to be installed in her home later*

*FAR RIGHT: Fixing a solar panel to roof*

### Kheto Sithole's story

Kheto Sithole's interest in an environmental career began with his curiosity to understand human interaction with the environment. This led him to enroll for a BSc Hons in Mining and Environmental Geology at the University of Venda, with the help of an HCI Foundation study bursary. This set him off on what he describes as "a great multidisciplinary career path."

Once Kheto realized that human survival is dependent on the natural environment for food and mineral resources, he developed a keen desire to understand the laws and regulations governing large scale potentially environmentally degrading human activities such as mining, construction and farming.

Kheto says "It has therefore been my passion to raise environmental awareness and promote sustainable development so that current activities do not jeopardize the opportunities of future generations to use the environment.

Currently I work as an environmental intern at HCI Mbali coal mine.

As an environmental scientist I have learned that if we take care of mother nature, it will sure do the same for us."

The HCI Foundation supports these and other projects which carry out environmental education and training because they show that increased awareness and understanding have the following benefits:

- growing vegetables leads to better nutrition and health, and creates income generating opportunities;
- waste recycling leads to cleaner community spaces, fewer landfills and more income generation opportunities;
- a cleaner environment – water, soil and air – means improved health for all;
- increased use of renewable energy implies less money spent on electricity, cleaner air, enterprise opportunities and greater sustainability.

# DIRECTORS' REPORT

## 1. Nature of business

Hosken Consolidated Investments Limited ("HCI") is an investment holding company, incorporated in South Africa and listed on the JSE Limited.

## 2. Operations and business

The business operations of HCI include the making of investments in opportunities as identified by the board of directors and the adding of value to these investments over time. As such, HCI has itself consciously established and pursued an investment policy in terms of which it has endeavoured to maintain significant equity and capital participation in entrepreneurially-run companies with significant growth potential. The investments are constantly reviewed and new ones sought to complement them.

Refer to pages 14 to 35 for an overview of operations for the year under review.

## 3. Share capital

Details of the authorised and issued share capital are set out in note 17 of the annual financial statements.

## 4. Directorate

Details of the directors of the company appear in the Corporate Administration section of this report.

The following changes were made to the directorate:

| Director | Date of appointment | Date of resignation |
|---|---|---|
| ML Molefi | - | 22/05/2019 |
| CC September | - | 22/05/2019 |
| L McDonald | 19/03/2020 | - |
| SNN Mkhwanazi-Sigege | 02/09/2019 | - |
| JR Nicolella | 22/05/2019 | - |

## 5. Composition of the board

The board has assumed responsibility, in line with the board charter, for the composition of the board by ensuring diversity, gender parity, skills, knowledge and resources to effectively discharge its governance role and responsibilities and carry out all its duties.

At 31 March 2020 the board was comprised of eleven members which included four executive directors, two non-executive directors and five independent non-executive directors. There is a clear balance of power and authority at the board of directors' level.

The board is chaired by Mr VE Mphande, an independent non-executive director, who is not a former CEO of the company. There is a clear division of responsibilities between the chairman and chief executive officer. The board does not deem it necessary to appoint a lead independent director.

| Board member | Number of board meetings | Attendance of members |
|---|---|---|
| JA Copelyn | 4 | 4 |
| MSI Gani | 4 | 4 |
| TG Govender | 4 | 4 |
| MF Magugu | 4 | 4 |
| L McDonald | 1 | 1 |
| SNN Mkhwanazi-Sigege | 2 | 2 |
| ML Molefi **** | 1 | 1 |
| VE Mphande (chair) | 4 | 4 |
| JG Ngcobo | 4 | 4 |
| JR Nicolella | 3 | 3 |
| CC September | 1 | 1 |
| Y Shaik | 4 | 4 |
| RD Watson | 4 | 4 |

## 6. Dividends

Ordinary dividend number 60, in the amount of fifty-five cents per share, was paid to shareholders on 17 December 2019.

## 7. Gender diversity

The board of directors has adopted a policy on gender diversity at board level and agreed on voluntary targets. The board has reached its gender target of 25% women.

## 8. Race diversity

The board of directors has adopted a policy on race diversity at board level. The voluntary target was set at a majority of members being people classified as 'black'. 73% of the members of the board are classified as 'black'.

## 9. Company secretary

HCI Managerial Services Proprietary Limited held the office of the company secretary for the twelve months ended 31 March 2020. The secretarial department is under the supervision of Cheryl Philip (FCIS) who is empowered, and authorised, to provide corporate governance services to the board and management. The board has evaluated the performance and independence of the company secretary during the period under review and it is satisfied that the company secretary is competent and has the appropriate qualifications and experience required by the group to administer the secretarial obligations of the company. The secretary has an arm's-length relationship with the board of directors.

The name, business and postal address of the company secretary are set out in the Corporate Administration section of this report.

## 10. Financial director

Mr JR Nicolella is the full-time executive financial director of the company. He succeeded Mr TG Govender on the 1 August 2019 as financial director.

### 11. Auditors

Subject to shareholder approval BDO South Africa Incorporated will continue in office in accordance with section 90 of the South African Companies Act for the 2021 financial year with Mr Theunis Schoeman as the designated auditor.

### 12. Auditor's report

The consolidated and separate annual financial statements have been audited by BDO South Africa Incorporated and their unqualified audit report on the annual financial statements.

### 13. Significant shareholders

The company's shareholders that own more than 5% of the issued shares are Southern African Clothing and Textile Workers' Union, Ronaldgate Proprietary Limited and Squirewood Investments 64 Proprietary Limited who own 28.5%, 7.5% and 5,3% respectively. No shareholder has a controlling interest in the company.

### 14. Special resolutions

The following special resolutions were passed by the company's shareholders at the annual general meeting of shareholders held on 12 September 2019:

- granting the directors the authority, subject to the provisions of the Act and the provisions of the JSE Listings Requirements, to allot and issue ordinary shares of the company (or to issue options or securities convertible into ordinary shares) for cash to such person or persons, on such terms and conditions as they may deem fit. The aggregate number of ordinary shares to be allotted and issued for cash is limited as set out in the resolution;
- approval of the fees payable to non-executive directors for their services as directors or as members of the board sub-committees in respect of the financial period 1 October 2019 until the next annual general meeting of the company; and
- granting the company and the subsidiaries of the company a general authority contemplated in terms of the JSE Listings Requirements 5.72, for the acquisition by the company, or a subsidiary of the company, of ordinary issued shares issued by the company.

### 15. Special resolutions of subsidiaries

The statutory information relating to special resolutions passed by subsidiaries is available from the registered office of the company.

### 16. Shareholding of directors

The shareholding of directors of the company and their participation in the share incentive scheme of the company as at 31 March 2020, are set out in the remuneration report on page 50 and in notes 42 and 43 of the annual financial statements respectively.

### 17. Directors' emoluments

Directors' emoluments incurred by the company and its subsidiaries for the year ended 31 March 2020 are set in note 44 of the annual financial statements.

### 18. Subsidiaries

Details of the company's subsidiaries are set out in annexure A to the annual financial statements.

### 19. Borrowing powers

There are no limits placed on borrowing in terms of the memorandum of incorporation. Certain companies in the group have entered into various loan agreements with providers of loan finance. These loan agreements include various covenants and undertakings by companies in the group which may restrict the group's borrowing powers. Details of these covenants and undertakings are available from the registered office of the company.

### 20. Litigation statement

There are no material legal or arbitration proceedings (including proceedings which are pending or threatened of which the directors of HCI are aware) which may have or have had, during the 12-month period preceding the last practicable date, a material effect on the financial position of HCI.

### 21. Material change

There has been no material change in the financial or trading position of the HCI group since the publication of its provisional results for the year ended 31 March 2020.

### 22. Events subsequent to reporting date

Events that occurred subsequent to the reporting date are set out in note 50 of the annual financial statements.

### 23. Going concern

The recent outbreak of COVID-19 has severely affected the South African economy and the group's operations, specifically those of its hotel and gaming interests. In preparing the cash flow forecasts utilised to assess going concern, the impact of the COVID-19 pandemic on the group's operations and liquidity was considered. The directors have assessed these cash flow forecasts together with the other actions taken or proposed and are of the view that the group has sufficient liquidity to meet its obligations as currently foreseen in the next financial year. Details of the impact of COVID-19 on the group's operations and liquidity are presented in note 51 of the annual financial statements.

| VE Mphande | JA Copelyn |
|---|---|
| Chairman | Chief Executive Officer |

24 August 2020, Cape Town

# APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The directors of Hosken Consolidated Investments Limited are responsible for the preparation, integrity and fair presentation of the financial statements of the company and of the group and for other information contained in this integrated report. The summarised financial statements set out on pages 76 – 88 and the annual financial statements for the year ended 31 March 2020, available on the company website www.hci.co.za, have been prepared in accordance with International Financial Reporting Standards and include amounts based on prudent judgments and estimates by management. The directors take full responsibility for the preparation of the summarised financial statements and that the financial information has been correctly extracted from the underlying annual financial statements.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the group or any company within the group will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the company and the group. The financial statements have been audited by the independent auditing firm, BDO South Africa Incorporated, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board.

The directors believe that all representations made to the independent auditors during the audit were valid and appropriate.

The annual financial statements for the year ended 31 March 2020, which are available on the company website, were approved by the board of directors on 24 August 2020 and are signed on its behalf by:

| VE Mphande | JA Copelyn | JR Nicolella |
|---|---|---|
| Chairman | Chief Executive Officer | Financial Director |

24 August 2020, Cape Town

# DECLARATION BY COMPANY SECRETARY

We certify that Hosken Consolidated Investments Limited has lodged with the Companies and Intellectual Property Commission, for the financial year ended 31 March 2020, all such returns as are required by a public company in terms of the Companies Act of South Africa and that such returns are true, correct and up to date.

*HCI Managerial Services Proprietary Limited*

HCI Managerial Services Proprietary Limited
Company Secretary
24 August 2020, Cape Town

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Audited 31 March 2020 R'000 | Audited 31 March 2019 R'000 |
|---|---|---|
| **ASSETS** | | |
| *Non-current assets* | **54 304 599** | 63 692 254 |
| Property, plant and equipment | **25 686 739** | 25 693 836 |
| Right-of-use assets | **1 172 047** | - |
| Investment properties | **9 229 722** | 10 053 377 |
| Goodwill | **3 943 166** | 4 744 030 |
| Interest in associates and joint arrangements | **2 977 772** | 2 469 742 |
| Other financial assets | **1 036 987** | 1 367 737 |
| Intangibles | **9 424 800** | 18 709 694 |
| Deferred taxation | **467 886** | 428 711 |
| Operating lease equalisation asset | **121 338** | 122 474 |
| Other | **244 142** | 102 653 |
| *Current assets* | **10 206 306** | 8 458 552 |
| Inventories | **1 054 443** | 995 207 |
| Programme rights | **845 355** | 792 611 |
| Other financial assets | **37 823** | 15 425 |
| Trade and other receivables | **2 441 634** | 2 386 424 |
| Taxation | **142 019** | 88 267 |
| Bank balances and deposits | **5 685 032** | 4 180 618 |
| Disposal group assets held for sale | **381 371** | 436 100 |
| Total assets | **64 892 276** | 72 586 906 |
| **EQUITY AND LIABILITIES** | | |
| *Equity* | **26 651 453** | 35 333 734 |
| Equity attributable to equity holders of the parent | **12 347 962** | 16 162 393 |
| Non-controlling interest | **14 303 491** | 19 171 341 |
| *Non-current liabilities* | **25 396 676** | 25 441 006 |
| Deferred taxation | **5 035 017** | 7 762 592 |
| Long-term borrowings | **18 169 392** | 16 788 127 |
| Lease liabilities | **1 424 481** | - |
| Operating lease equalisation liability | **-** | 233 175 |
| Provisions | **218 324** | 265 327 |
| Other | **549 462** | 391 785 |
| *Current liabilities* | **12 738 104** | 11 655 863 |
| Trade and other payables | **2 933 215** | 3 054 866 |
| Current portion of borrowings | **5 195 377** | 4 933 280 |
| Taxation | **203 030** | 167 845 |
| Provisions | **311 194** | 391 285 |
| Bank overdrafts | **3 956 883** | 2 907 507 |
| Other | **138 405** | 201 080 |
| Disposal group liabilities held for sale | **106 043** | 156 303 |
| Total equity and liabilities | **64 892 276** | 72 586 906 |
| Net asset carrying value per share (cents) | **15 269** | 19 043 |

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | % change | Audited 31 March 2020 R'000 | Audited 31 March 2019 * R'000 |
|---|---|---|---|
| Revenue | | **14 924 170** | 14 325 992 |
| Net gaming win | | **9 846 472** | 9 827 869 |
| Property rental income | | **1 023 944** | 970 655 |
| Income | 2.7% | **25 794 586** | 25 124 516 |
| Expenses | | **( 19 032 879)** | ( 18 535 460) |
| EBITDA | 2.6% | **6 761 707** | 6 589 056 |
| Depreciation and amortisation | | **( 1 675 268)** | ( 1 446 839) |
| Operating profit | | **5 086 439** | 5 142 217 |
| Investment income | | **524 354** | 264 908 |
| Finance costs | | **( 2 310 645)** | ( 1 898 104) |
| Share of losses of associates and joint arrangements | | **( 176 689)** | ( 169 479) |
| Investment surplus | | **29 524** | 14 275 |
| Fair value adjustment on associate on change of control | | **9 163** | - |
| Fair value adjustments on investment properties | | **( 993 218)** | ( 530 339) |
| Impairment reversals | | **-** | 111 319 |
| Asset impairments | | **( 10 261 318)** | ( 152 694) |
| Fair value adjustments on financial instruments | | **( 2 122)** | 7 140 |
| Impairment of goodwill and investments | | **( 847 970)** | - |
| (Loss)/profit before taxation | (420.6%) | **( 8 942 482)** | 2 789 243 |
| Taxation | | **1 750 053** | ( 1 001 024) |
| (Loss)/profit for the year from continuing operations | | **( 7 192 429)** | 1 788 219 |
| Discontinued operations | | **( 132 595)** | ( 123 809) |
| (Loss)/profit for the year | | **( 7 325 024)** | 1 664 410 |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent | | **( 3 805 278)** | 707 984 |
| Non-controlling interest | | **( 3 519 746)** | 956 426 |
| | | **( 7 325 024)** | 1 664 410 |

**Restated*

# RECONCILIATION OF HEADLINE EARNINGS

| | % change | Audited year ended 31 March 2020 Gross R'000 | Audited year ended 31 March 2020 Net R'000 | Audited year ended 31 March 2019 Gross R'000 | Audited year ended 31 March 2019 Net R'000 |
|---|---|---|---|---|---|
| (Losses)/earnings attributable to equity holders of the parent | (637.5%) | | ( 3 805 278) | | 707 984 |
| Fair value adjustment on deemed disposal of associate | | ( 9 163) | ( 5 691) | - | - |
| Impairment of goodwill | | 819 711 | 637 713 | 16 604 | 7 057 |
| (Gains)/losses on disposal of plant and equipment | | ( 18 821) | ( 10 815) | 6 195 | 2 117 |
| Impairment of property, plant and equipment | | 1 053 239 | 425 908 | 110 958 | 63 232 |
| Foreign currency translation reserve recycled | | - | - | ( 1 005) | ( 427) |
| Gains from disposal of subsidiaries | | ( 254) | ( 1 599) | ( 2 989) | ( 1 899) |
| Gains on disposal of associates and joint arrangements | | ( 28 524) | ( 12 400) | ( 14 275) | ( 6 067) |
| Impairment of associates and joint arrangements | | 28 259 | 14 523 | - | - |
| Reversal of impairment of assets | | - | - | ( 111 319) | ( 39 394) |
| Impairment of intangible assets | | 9 245 979 | 3 292 624 | 82 324 | 31 421 |
| Losses on disposal of investment properties | | 49 | 89 | - | - |
| Fair value adjustments on investment properties | | 993 218 | 352 749 | 530 339 | 133 375 |
| Impairment of right-of-use assets | | 7 307 | 3 361 | - | - |
| Write-off of intangible assets | | - | - | 14 579 | 4 633 |
| Insurance claims for capital assets | | ( 6 828) | ( 3 815) | ( 10 291) | ( 5 764) |
| Remeasurements included in equity-accounted earnings of associates and joint arrangements | | 170 137 | 159 539 | 137 309 | 132 255 |
| Headline profit | 1.8% | | 1 046 908 | | 1 028 523 |

| | % change | 2020 | 2019 |
|---|---|---|---|
| Basic (losses)/earnings per share (cents) | | | |
| (Losses)/earnings | (655,8%) | ( 4 591,53) | 826,16 |
| Continuing operations | | ( 4 460,67) | 926,33 |
| Discontinued operations | | ( 130,86) | ( 100,17) |
| Headline earnings per share (cents) | 5,3% | 1 263,22 | 1 200,20 |
| Continuing operations | | 1 352,17 | 1 265,18 |
| Discontinued operations | | ( 88,95) | ( 64,98) |
| Weighted average number of shares in issue ('000) | | 82 876 | 85 696 |
| Actual number of shares in issue at the end of the year (net of treasury shares) ('000) | | 80 870 | 84 875 |
| Diluted (losses)/earnings per share (cents) | | | |
| (Losses)/earnings | (658,9%) | ( 4 591,53) | 821,49 |
| Continuing operations | | ( 4 460,67) | 921,09 |
| Discontinued operations | | ( 130,86) | ( 99,60) |
| Headline earnings per share (cents) | 5,8% | 1 263,22 | 1 193,42 |
| Continuing operations | | 1 352,17 | 1 258,04 |
| Discontinued operations | | ( 88,95) | ( 64,62) |
| Weighted average number of shares in issue ('000) | | 82 876 | 86 183 |

# CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| | **Audited 31 March 2020 R'000** | Audited 31 March 2019 R'000 |
|---|---|---|
| (Loss)/profit for the year | **( 7 325 024)** | 1 664 410 |
| Other comprehensive (loss)/ income net of tax: | | |
| *Items that will subsequently be reclassified to profit or loss* | | |
| Foreign currency translation differences | **780 591** | 410 067 |
| Reclassification of foreign currency differences on disposal | **-** | ( 1 005) |
| Cash flow hedge reserve | **( 54 494)** | 46 810 |
| Share of other comprehensive losses of equity-accounted investments | **( 16 308)** | ( 21 125) |
| *Items that will not subsequently be reclassified to profit or loss* | | |
| Revaluation of owner-occupied land and buildings on transfer to investment properties | **27 607** | 35 895 |
| Actuarial gains on post-employment benefit liability | **19 711** | 7 667 |
| Fair value adjustments on equity instruments designated at fair value through other comprehensive income | **( 284 878)** | ( 5 613) |
| Total comprehensive (loss)/income | **( 6 852 795)** | 2 137 106 |
| | | |
| Attributable to: | | |
| Equity holders of the parent | **( 3 306 816)** | 1 048 592 |
| Non-controlling interest | **( 3 545 979)** | 1 088 514 |
| | **( 6 852 795)** | 2 137 106 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | **Audited 31 March 2020 R'000** | Audited 31 March 2019 R'000 |
|---|---|---|
| Balance at the beginning of the year* | **35 178 142** | 35 639 118 |
| *Share capital and premium* | | |
| Treasury shares released | **-** | 1 968 |
| Shares repurchased | **( 373 872)** | ( 124 853) |
| *Current operations* | | |
| Total comprehensive (loss)/ income | **(6 852 795)** | 2 137 106 |
| Equity-settled share-based payments | **20 681** | 16 048 |
| Acquisition of subsidiaries | **3 926** | - |
| Disposal of subsidiaries | **4 879** | ( 23 083) |
| Effects of changes in holding | **( 399 804)** | ( 565 897) |
| Dividends | **( 929 704)** | (1 746 673) |
| Balance at the end of the year | **26 651 453** | 35 333 734 |

* *Accumulated profits and non-controlling interest as at 1 April 2019 restated by R77.8 million each for the adoption of IFRS 16*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | **Audited 31 March 2020 R'000** | Audited 31 March 2019 R'000 |
|---|---|---|
| *Cash flows from operating activities* | **2 727 273** | 2 211 232 |
| Cash generated by operations | **7 104 797** | 7 052 328 |
| Net finance costs | **( 1 870 298)** | ( 1 721 092) |
| Changes in working capital | **( 705 876)** | ( 508 047) |
| Taxation paid | **( 871 646)** | ( 867 910) |
| Dividends paid | **( 929 704)** | ( 1 744 047) |
| | | |
| *Cash flows from investing activities* | **( 2 260 022)** | ( 3 125 952) |
| Business combinations and disposals | **13 345** | ( 25 903) |
| Net investments acquired | **( 341 613)** | ( 753 393) |
| Dividends received | **160 909** | 120 053 |
| (Increase)/decrease in loans and receivables | **( 6 917)** | 271 440 |
| Intangible assets | | |
| - Additions | **( 68 080)** | ( 26 125) |
| - Disposals | **5** | 3 |
| Investment properties | | |
| - Additions | **( 353 214)** | ( 591 237) |
| - Disposals | **11 405** | 234 |
| Property, plant and equipment | | |
| - Additions | **( 1 761 876)** | ( 2 201 384) |
| - Disposals | **86 014** | 80 360 |
| | | |
| *Cash flows from financing activities* | **( 123 068)** | 427 688 |
| Ordinary shares repurchased | **( 373 872)** | ( 124 853) |
| Other liabilities (repaid)/raised | **( 6 388)** | 1 258 |
| Transactions with non-controlling shareholders | **( 449 451)** | ( 160 664) |
| Principal paid on lease liabilities | **( 391 331)** | - |
| Net funding raised | **1 097 974** | 711 947 |
| | | |
| *Increase/(decrease) in cash and cash equivalents* | **344 183** | ( 487 032) |
| Cash and cash equivalents | | |
| At the beginning of the year | **1 282 652** | 1 721 499 |
| Foreign exchange differences | **113 414** | 48 185 |
| At the end of the year | **1 740 249** | 1 282 652 |
| | | |
| Bank balances and deposits | **5 685 032** | 4 180 618 |
| Bank overdrafts | **( 3 956 883)** | ( 2 907 507) |
| Cash in disposal groups held for sale | **12 100** | 9 541 |
| Cash and cash equivalents | **1 740 249** | 1 282 652 |

# SEGMENTAL ANALYSIS

| | 31 March 2020 R'000 | 31 March 2019* R'000 | 31 March 2020 R'000 | 31 March 2019 R'000 |
|---|---|---|---|---|
| | **Revenue** | | **Net gaming win** | |
| Media and broadcasting | **2 506 160** | 2 356 255 | **-** | - |
| Gaming ** | **1 648 516** | 1 623 201 | **9 846 472** | 9 827 869 |
| Hotels** | **4 093 731** | 3 984 982 | **-** | - |
| Transport | **2 045 158** | 1 779 849 | **-** | - |
| Properties | **253 709** | 267 618 | **-** | - |
| Coal mining | **1 631 936** | 1 472 734 | **-** | - |
| Branded products and manufacturing | **2 732 839** | 2 830 005 | **-** | - |
| Other | **12 121** | 11 348 | **-** | - |
| **Total** | **14 924 170** | 14 325 992 | **9 846 472** | 9 827 869 |

| | 31 March 2020 R'000 | 31 March 2019* R'000 | 31 March 2020 R'000 | 31 March 2019* R'000 |
|---|---|---|---|---|
| | **Property rental income** | | **EBITDA** | |
| Media and broadcasting | **14 288** | 13 314 | **458 804** | 345 599 |
| Gaming** | **148 083** | 136 888 | **3 979 439** | 3 877 680 |
| Hotels** | **331 092** | 357 089 | **1 180 637** | 1 190 097 |
| Transport | **-** | - | **506 144** | 429 398 |
| Properties | **378 864** | 327 198 | **315 265** | 287 084 |
| Coal mining | **-** | - | **249 864** | 389 949 |
| Branded products and manufacturing | **138 760** | 125 831 | **240 273** | 204 494 |
| Other | **12 857** | 10 335 | **( 168 719)** | ( 135 245) |
| **Total** | **1 023 944** | 970 655 | **6 761 707** | 6 589 056 |

| | 31 March 2020 R'000 | 31 March 2019* R'000 | 31 March 2020 R'000 | 31 March 2019* R'000 |
|---|---|---|---|---|
| | **Profit/(loss) before tax** | | **Headline earnings/(losses)** | |
| Media and broadcasting | **345 846** | 226 293 | **122 357** | 69 360 |
| Gaming** | **(7 520 723)** | 2 127 509 | **667 835** | 798 843 |
| Hotels** | **(2 093 399)** | 272 206 | **99 245** | 136 807 |
| Transport | **384 643** | 349 363 | **203 889** | 177 836 |
| Properties | **180 161** | 138 158 | **85 298** | 67 862 |
| Coal mining | **142 017** | 294 809 | **101 198** | 211 348 |
| Branded products and manufacturing | **(8 582)** | 65 460 | **(15 888)** | (15 124) |
| Oil and gas prospecting | **(159 080)** | (171 927) | **(4 510)** | (44 558) |
| Palladium prospecting | **(39 937)** | (36 798) | **(39 937)** | (36 798) |
| Other*** | **(173 428)** | (475 830) | **(172 579)** | (337 053) |
| **Total** | **(8 942 482)** | 2 789 243 | **1 046 908** | 1 028 523 |

* *Restated*

** *Results for the prior year restated following the separation of Tsogo Sun Holdings Limited into two independent companies, Tsogo Sun Gaming Limited and Tsogo Sun Hotels Limited. The results of these two companies are reported under gaming and hotels, respectively.*

*** *Results for prior year restated for reclassification of oil and gas prospecting and palladium prospecting segments*

# SEGMENTAL ANALYSIS (CONTINUED)

The group's revenue disaggregated by primary geographical markets is as follows:

| | South Africa R'000 | Other African countries and Middle East R'000 | Europe and United Kingdom R'000 | Total R'000 |
|---|---|---|---|---|
| **31 March 2020** | | | | |
| Media and broadcasting | **2 506 160** | **-** | **-** | **2 506 160** |
| Gaming** | **1 648 516** | **-** | **-** | **1 648 516** |
| Hotels** | **3 530 674** | **563 057** | **-** | **4 093 731** |
| Transport | **2 045 158** | **-** | **-** | **2 045 158** |
| Properties | **253 709** | **-** | **-** | **253 709** |
| Coal mining | **1 631 936** | **-** | **-** | **1 631 936** |
| Branded products and manufacturing | **2 623 182** | **49 281** | **60 376** | **2 732 839** |
| Other | **12 121** | **-** | **-** | **12 121** |
| | **14 251 456** | **612 338** | **60 376** | **14 924 170** |

| | South Africa R'000 | Other African countries and Middle East R'000 | Europe and United Kingdom R'000 | Total R'000 |
|---|---|---|---|---|
| **31 March 2019*** | | | | |
| Media and broadcasting | 2 356 255 | - | - | 2 356 255 |
| Gaming** | 1 623 201 | - | - | 1 623 201 |
| Hotels** | 3 385 441 | 599 541 | - | 3 984 982 |
| Transport | 1 779 849 | - | - | 1 779 849 |
| Properties | 267 618 | - | - | 267 618 |
| Coal mining | 1 472 734 | - | - | 1 472 734 |
| Branded products and manufacturing | 2 666 540 | 60 821 | 102 644 | 2 830 005 |
| Other | 11 348 | - | - | 11 348 |
| | 13 562 986 | 660 362 | 102 644 | 14 325 992 |

** Restated*

The group's revenue disaggregated by pattern of revenue recognition is as follows:

| | Revenue recognised over time | Revenue recognised at a point in time | Total |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| **31 March 2020** | | | |
| **Provision of services** | | | |
| Media and broadcasting | 2 472 874 | 33 286 | 2 506 160 |
| Gaming | 1 000 757 | 647 759 | 1 648 516 |
| Hotels | 3 030 570 | 1 063 161 | 4 093 731 |
| Transport | 1 688 748 | 356 100 | 2 044 848 |
| Properties | 121 282 | 132 427 | 253 709 |
| Other | 12 121 | - | 12 121 |
| **Sale of goods** | | | |
| Transport | - | 310 | 310 |
| Coal mining | - | 1 631 936 | 1 631 936 |
| Branded products and manufacturing | 16 739 | 2 716 100 | 2 732 839 |
| | 8 343 091 | 6 581 079 | 14 924 170 |

| | | | |
|---|---|---|---|
| **31 March 2019 *** | | | |
| **Provision of services** | | | |
| Media and broadcasting | 2 341 123 | 15 132 | 2 356 255 |
| Gaming | 975 442 | 647 759 | 1 623 201 |
| Hotels | 2 994 470 | 990 512 | 3 984 982 |
| Transport | 1 553 350 | 225 831 | 1 779 181 |
| Properties | 106 186 | 161 432 | 267 618 |
| Branded products and manufacturing | - | 4 270 | 4 270 |
| Other | 11 348 | - | 11 348 |
| **Sale of goods** | | | |
| Transport | - | 668 | 668 |
| Coal mining | - | 1 472 734 | 1 472 734 |
| Branded products and manufacturing | 19 800 | 2 805 935 | 2 825 735 |
| | 8 001 719 | 6 324 273 | 14 325 992 |

** Restated*

## BASIS OF PREPARATION AND ACCOUNTING POLICIES

The results for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS), the disclosure requirements of IAS 34, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the South African Companies Act, 2008 and the Listings Requirements of the JSE Limited.

As required by the JSE Limited Listings Requirements, the company reports headline earnings in accordance with Circular 1/2019: Headline Earnings as issued by the South African Institute of Chartered Accountants.

These financial statements were prepared under the supervision of the financial director, Mr JR Nicolella CA(SA), and have been independently reviewed by the group's auditors.

The accounting policies applied by the group in the preparation of these condensed consolidated financial statements are consistent with those applied by the group in its consolidated financial statements for the year ended 31 March 2019, except for the adoption of IFRS 16 Leases in the current year.

**Adoption of IFRS 16 Leases:**

The group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1 April 2019), without restatement of comparative figures. The group elected to apply the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- a single discount rate was applied to a portfolio of leases with reasonably similar characteristics;
- initial direct costs were excluded from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 had been applied since the commencement date; and
- the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application was applied.

The group has further elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets based on the value of the underlying asset when new.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 April 2019:

| | R'million |
|---|---|
| Right-of-use assets | 1 111 |
| Disposal group assets held for sale | 10 |
| Transfer of IAS 17 finance lease assets from property, plant and equipment at 1 April 2019 | (6) |
| Deferred tax assets | 52 |
| Lease liabilities | (1 595) |
| Disposal group liabilities held for sale | (16) |
| Transfer of IAS 17 finance lease liabilities from borrowings at 1 April 2019 | 6 |
| Lease smoothing accrual reversal | 282 |
| Restatement of equity as at 1 April 2019 | (156) |
| Equity restated as follows: | |
| Retained earnings | (78) |
| Non-controlling interest | (78) |
| | (156) |

Right-of-use assets were measured at the carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rates as at 1 April 2019. The group's incremental borrowing rates are the rates at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted average rates applied were between 9.0% and 12.6%.

The following table reconciles the minimum lease commitments disclosed in the group's annual financial statements for the year ended 31 March 2019 to the amount of lease liabilities recognised on 1 April 2019:

| | R'million |
|---|---|
| Minimum operating lease commitment at 31 March 2019 | 2 577 |
| Less: short-term leases not recognised under IFRS 16 | ( 47) |
| Less: low-value leases not recognised under IFRS 16 | ( 7) |
| Less: intangibles not capitalised | ( 11) |
| Less: other sundry adjustments | ( 8) |
| Plus: lease modifications | 29 |
| Plus: effect of extension options reasonably certain to be exercised | 227 |
| Plus: effect of options to purchase reasonably certain to be exercised | 31 |
| Undiscounted lease payments | 2 791 |
| Less: effect of discounting using the incremental borrowing rate as at the date of initial application | ( 1 186) |
| Lease liabilities recognised at 1 April 2019 | 1 605 |
| Plus: transfer of IAS 17 finance lease liabilities from borrowings at 1 April 2019 | 6 |
| Lease liabilities at 1 April 2019 | 1 611 |

Included in profit or loss for the year are R152 million of depreciation and amortisation on right-of-use assets and R168 million of finance costs on lease liabilities. Short-term and low-value leases included in other operating expenses and income for the year were R63 million and R18 million, respectively. Lease payments of R559 million were recognised in respect of lease liabilities.

## GOING CONCERN AND IMPACT OF COVID-19 PANDEMIC

Initial trade restrictions and the subsequent national lockdown on 27 March 2020 has had a severe impact on the economy. While the majority of the group's media and broadcasting, transport and coal mining operations were designated as essential services under the lockdown regulations, the group's gaming operations have not been able to trade and its hotel operations have only recently been able to trade on a limited basis. The group's properties division has been impacted by the reduced ability of its tenant base to comply with its rent obligations as a significant portion of its tenants have not been able to trade during the period of lockdown restrictions.

The share prices of Tsogo Sun Gaming and Tsogo Sun Hotels deteriorated significantly in the period leading up to the trade restrictions noted above. As a result the security cover ratio covenants relating to certain central borrowings were breached. However, the company and its funders agreed to pursue remedial action and no default occurred. Expected dividends from the group's gaming and hotel operations have also been severely impacted, resulting in the possible breach of future debt service cover ratio covenants (it must be noted that these have not been breached at the time of release of these results), although management expects debt service obligations on these central borrowings to be complied with for the foreseeable future.

The group's funders at the centre and at the relevant subsidiaries have remained supportive and have, inter alia, agreed in principle to the following measures:

- the waiver of hotel operations' covenant requirements for the measurement period ending 30 September 2020 and the capitalisation of bank funding interest to revolving credit facilities until 30 September 2020;
- the waiver of gaming operations' covenant requirements for the measurement period ending 30 September 2020 and the capitalisation of bank funding interest for three quarters, repayable over a three-year period thereafter;
- the granting of additional facilities to the properties division to assist with cash flow deficits occasioned by tenant defaults and extended rental payment terms; and
- in respect of the company's central borrowings, and subject to the agreement on revised pricing, the pledge of further security and collateralising of additional facilities, the permanent reconstitution of certain security cover ratios and the waiver of certain security cover ratios until 31 December 2020. Applicable security cover ratios will be mutually agreed during December 2020 for a period of one year from 1 January 2021, whereafter sustainable prospective security cover ratios will be agreed, taking into account market conditions at the time. During the period to 31 December 2021, the debt service cover ratio has been waived, subject to the achieving of certain agreed cash flows and borrowings levels.

In preparing the cash flow forecasts utilised to assess going concern, the impact of the COVID-19 pandemic on the group's operations and liquidity was considered. The company has assessed the cash flow forecasts together with the other actions taken or proposed and is of the view that the group has sufficient liquidity to meet its obligations as currently foreseen in the next financial year.

## FAIR VALUE MEASUREMENT

**Investment properties:**

Downward fair value adjustments of R888 million to investment properties in respect of hotel operations were recognised in the current year. The fair value has been determined using capitalised values of the projected rental income together with the assessment of development land. Vacancies have been considered based on the historical and current vacancy factors as well as the nature, location, size and popularity of the properties. Due to the uncertainty of future trading conditions, the forecasts reduced in year one with 75% and in year two with 25% when compared to actual results as at 31 March 2020.

As at 31 March 2020 the significant unobservable inputs were as follows:

- a weighted average rental growth rate of 5.2%;
- a terminal capitalisation rate of 9% – 13.5%; and
- a risk-adjusted discount rate of 12% – 14.5%.

**Financial asset at fair value through other comprehensive income:**

During the 2017 financial year the group entered into a transaction with Sun International Limited (SI) and Grand Parade Investments Limited (GPI) for the acquisition of a 20% equity interest in each of SunWest International Proprietary Limited (SunWest) and Worcester Casino Proprietary Limited (Worcester). The group has pre-emptive rights but no representation on the board of directors of either company and has no operational responsibilities. The group also has no access to any information regarding the companies except for that to which it has statutory rights as a shareholder. These investments are classified as level 3 fair value measurements and have been accounted for as financial assets at fair value through other comprehensive income. At the end of each reporting period the investment is remeasured and the increase or decrease recognised in other comprehensive income.

The asset has been remeasured to R898 million at 31 March 2020, a R368 million decrease. A discounted cash flow valuation was used to estimate the fair value. The valuation model considered the present value of net cash flows to be generated from SunWest and Worcester, together with their operating capital expenditure. The expected net cash flows were discounted using a risk-adjusted discount rate. The reason for the fair value loss is significantly the recent outbreak of COVID-19 which has severely affected the South African economy.

The significant unobservable inputs used in the fair value measurement of the group's investment in SunWest and Worcester as at 31 March 2020 are shown below.

- Expected gaming win declines by 40% in the 2021 financial year and increases by 67% the next year, thereafter 8% and 3% over the following years
- Operating expenditure declines by 22% in the 2021 financial year and increases by 33% the next year, thereafter 4% over the following years
- Risk-adjusted discount rate of 14.3% post-tax
- Long-term growth rate of 5.3%

## IMPAIRMENTS

**Intangible assets:**

Asset impairments include casino licence impairments of R9.2 billion in respect of the group's gaming operations. This was a result of the impact of COVID-19-related trade restrictions, the deterioration in growth assumptions and discount rates used in the respective valuations, and general weak trading in certain precincts. Impairments per casino precinct were as follows:

| | R'million |
|---|---:|
| Gold Reef City | 1 401 |
| Silverstar | 1 451 |
| Goldfields | 130 |
| Montecasino | 2 212 |
| Suncoast | 2 954 |
| Garden Route | 45 |
| Hemingways | 86 |
| The Ridge | 437 |
| Emnotweni | 346 |
| Blackrock | 109 |
| Total | 9 170 |

The significant unobservable inputs used in the testing of the group's casino licences for impairment as at 31 March 2020 are shown below.

- Expected gaming win declines by 40% in the 2021 financial year and increases by 67% the next year, thereafter 8% and 3% over the following years
- Operating expenditure declines by 22% in the 2021 financial year and increases by 33% the next year, thereafter 4% over the following years
- Risk-adjusted discount rate of 14.4% post-tax
- Long-term growth rate of 5.3%

**Goodwill:**

Goodwill of R810 million in respect of the group's hotel operations was impaired during the current year. This was significantly a result of the impact of COVID-19-related trade restrictions and the deterioration in growth assumptions and discount rates used in valuations performed.

The significant unobservable inputs used in the testing of goodwill, in respect of the group's hotel operations, for impairment as at 31 March 2020 are shown below.

- Expected revenue declines by 71% in the 2021 financial year and increases to pre-COVID-19 levels by mid-2023, thereafter 8% and 7% over the following years
- Operating expenditure declines by 38% in the 2021 financial year and increases to pre-COVID-19 levels by mid-2023, thereafter 7% and 6% over the following years
- Risk-adjusted discount rate of 14% post-tax
- Long-term growth rate of 5.1%

**Property, plant and equipment:**

Land and buildings in respect of the group's hotel operations were impaired by R822 million during the current year. This was significantly a result of the impact of COVID-19-related trade restrictions and the deterioration in growth assumptions and discount rates used in valuations performed.

The significant unobservable inputs used in respect of the impaired properties as at 31 March 2020 are shown below.

- A 96% reduction in revenue for the first six months of the 2021 financial year. Cash flows for the second half of 2021 and the first half of 2022 reflect a slow recovery in both occupancy and rate with the group's entire portfolio assumed to be fully operational by September 2022 and trading at similar levels achieved in the 2019 financial year. The annual growth rate applied to the cash flow forecasts for the 2023 to 2025 financial years ranged between 5% and 6%
- Risk-adjusted discount rate of 14% post-tax for South African properties and between 9% and 13.5% for offshore properties
- Long-term growth rate of 5% for South African properties and 2% for offshore properties

## RECLASSIFICATION OF COMPARATIVE RESULTS

Certain property-related income that meets the definition of revenue in terms of IFRS 15 has been reclassified as follows from rental income to revenue in the comparative results included in the statement of profit or loss:

- Revenue increased by R124 million
- Property rental income decreased by R124 million

**Gaming and hotels:**

Following Tsogo Sun Holdings' (subsequently renamed to Tsogo Sun Gaming) unbundling and separate listing of its hotel interests during June 2019, the results of Tsogo Sun Gaming and Tsogo Sun Hotels have been reported separately under gaming and hotels, respectively. Comparative segmental results have been reclassified accordingly. The effective shareholding of the group in these entities remained the same immediately following the unbundling.

**Oil and gas prospecting and palladium prospecting**

The prior year comparative results of Impact Oil and Gas and Platinum Group Metals have been reclassified to the oil and gas prospecting and palladium prospecting segments, respectively.

## DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE

**Media and broadcasting:**

The results of certain non-core local and offshore operations in the media and broadcasting segment are included in discontinued operations in the current and prior years. Disposal group assets of R24 million and liabilities of R2 million relate to these operations.

**Branded products and manufacturing:**

During the prior year the board of Deneb Investments resolved to dispose of its interests in Winelands Textiles, Frame Knitting Manufacturers, First Factory Shops and Brand ID. Winelands Textiles and First Factory Shops were disposed of during January and February 2020, respectively. Negotiations remain ongoing in respect of the remainder. The results of these divisions are included in discontinued operations in the statement of profit or loss in the current and prior years and the assets of R107 million and liabilities of R79 million classified as disposal groups in the current year (R393 million and R139 million as at 31 March 2019, respectively).

**Gaming:**

Niveus Investments initiated the process to dispose of its online and retail sports betting interests during March 2019. This process remains ongoing. As a result assets of R50 million and liabilities of R25 million (assets of R37 million and liabilities of R15 million as at 31 March 2019) of these operations have been classified as disposal groups held for sale and their results included in discontinued operations in the current and prior years.

**Properties:**

A process to dispose of an office building in Umhlanga, held by the group as an investment property, was initiated prior to the reporting date. The building, with a carrying value of R115 million, has been classified as held for sale in the statement of financial position in the current year. Further investment properties with a carrying value of R85 million await sale, R52 million of which has been contracted for.

The results of discontinued operations were as follows (R'million):

| | Media and broadcasting non-core operations | Branded products and manufacturing | Gaming non-core operations |
|---|---|---|---|
| (Loss)/profit after tax before disposal gains and losses | (7) | (127) | 2 |
| (Loss)/gain on disposal | (4) | 3 | - |

**BUSINESS COMBINATIONS**

**Transport:**

The group acquired an additional 33.3% of the issued share capital of Sibanye Bus Services Proprietary Limited (Sibanye) for R27 million, effective 1 April 2019, increasing its holding in the company to 66.7%. A further 33.3% was acquired on 31 July 2019 for R27 million.

The acquisition resulted in revenue increasing by R91 million in the current year and profit after tax increasing by R17 million. Goodwill of R19 million arose on acquisition and can be attributed to the benefits of expected synergies and revenue growth.

The group acquired 90% of the issued share capital of K2019623129 Proprietary Limited, trading as Shuttle Up, for R2 million on 1 March 2020. Goodwill of R0.2 million arose on acquisition and the business contributed no revenue or profit after tax in the current year.

The fair value of net assets acquired in the above acquisitions, for which the purchase price allocation is final, is as follows:

| | R'million |
|---|---|
| Property, plant and equipment | 61 |
| Current assets | 49 |
| Non-current liabilities | (35) |
| Current liabilities | (20) |
| Net assets acquired | 55 |
| Non-controlling interest | (18) |
| Fair value of interest previously held | (27) |
| Goodwill | 19 |
| Purchase consideration | 29 |

**Other:**

The trust deed of the HCI Foundation was amended effective 28 May 2019, resulting in the group acquiring effective control of the trust. No consideration was paid in respect of the business combination. The fair value of net assets acquired, for which the purchase price allocation is final, is as follows:

| | R'million |
|---|---|
| Non-current assets | 35 |
| Current assets | 1 |
| Current liabilities | (49) |
| Net liabilities acquired | (13) |
| Non-controlling interest | 13 |

The business combination resulted in no increase in revenue in the current year and a decrease in profit after tax of R22 million. Had the business combination been effective on 1 April 2019, there would have been no increase in revenue and profit after tax would have decreased by R45 million.

# NOTICE TO MEMBERS

**HOSKEN CONSOLIDATED INVESTMENTS LIMITED**

**Registration number 1973/007111/06**

**Incorporated in the Republic of South Africa**

**(“HCI” or “the Company”)**

**ISIN Code: ZAE000003257 Share Code: HCI**

**NOTICE OF ANNUAL GENERAL MEETING FOR THE YEAR ENDED 31 MARCH 2020**

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held on Thursday 15 October 2020 at 12h00 at the offices of the Company, Suite 801, 76 Regent Road, Sea Point, 8005. Registration will start at 11h30.

This document is available in English only. The proceedings at the meeting will be conducted in English.

**General instructions and information:**

The board of directors of the Company (“the board”) determined, in accordance with section 59 of the Companies Act, 71 of 2008, as amended (“Act”), that the record date for the purpose of determining when persons must be recorded as shareholders in the securities register of the Company in order to be entitled to receive notice of the annual general meeting is 4 September 2020.

The board determined that the record date for purposes of determining which shareholders of the Company are entitled to participate in and vote at the annual general meeting is Friday, 9 October 2020.

Accordingly, only shareholders who are registered in the securities register of the Company on Friday, 9 October 2020 will be entitled to participate in and vote at the annual general meeting.

All shareholders are encouraged to attend, speak and vote at the annual general meeting and are entitled to appoint a proxy to attend, speak and vote at the meeting in place of the shareholder. The proxy duly appointed to act on behalf of a shareholder, need not also be a shareholder of the Company. In order to facilitate proceedings at the annual general meeting, shareholders intending to appoint a proxy are requested to do so as soon as is reasonably practical.

If you hold certificated shares (i.e. you have not dematerialised your shares in the Company) or are registered as an “own name” dematerialised shareholder (i.e. you have specifically instructed your Central Securities Depository Participant (“CSDP”) to hold your shares in your own name on the Company’s sub-register), then:

- you may attend and vote at the annual general meeting; alternatively;
- you may appoint one or more proxies (who need not be shareholders of the Company) to represent you at the annual general meeting by completing the attached form of proxy and returning it to the office of the transfer secretaries (Computershare Investor Services (Pty) Limited, 15 Biermann Avenue, Rosebank 2196 (Private Bag X9000, Saxonwold, 2132) / Email proxy@computershare.co.za, to be received by no later than 11h30 on 14 October 2020 for administrative purposes, or delivering such form by hand thereafter to the Company Secretary, before the proxy exercises any rights of the shareholder at the meeting; and/or
- you may participate in the annual general meeting by way of electronic participation as stipulated in this notice.

Please note that the Company intends to make provision for shareholders of the Company, or their proxies, to participate in the annual general meeting by way of video conference in Johannesburg. Should you wish to participate in the annual general meeting by way of video conference as aforesaid, you are required to give notice of such proposed participation to the Company at its registered office or at the office of the transfer secretaries by no later than 11h00 on Tuesday 13th October 2020. In order for the notice to be valid, it must be accompanied by the following:

- if the shareholder is an individual, a certified copy of his identity document and/or passport;
- if the shareholder is not an individual, a certified copy of the resolution adopted by the relevant entity authorising the representative to represent the shareholder at the annual general meeting and a certified copy of the authorised representative’s identity document and/or passport;
- a valid e-mail address and/or facsimile number for the purpose of receiving details of the video conference facility that will be made available.

Upon receipt of the aforesaid notice and documents, the Company shall use its reasonable endeavours to notify you of the relevant details of the video-conference facilities available in Johannesburg at which you can participate in the annual general meeting by way of electronic communication.

Please note that if you own dematerialised shares (i.e. have replaced the paper share certificates representing the shares with electronic records of ownership under the JSE Limited’s [“JSE”] electronic settlement system, Share Transactions Totally Electronic [“STRATE”] held through a CSDP or broker (or their nominee)) and are not registered as an “own name dematerialised shareholder”, then you are not a registered shareholder of the Company, your CSDP or broker (or their nominee) would be. Accordingly, in these circumstances, subject to the mandate between yourself and your CSDP or broker, as the case may be:

- if you wish to participate in the annual general meeting (either being physically present at the meeting or by way of electronic participation), you must contact your CSDP or broker, as the case may be, and obtain the relevant letter of representation from it; alternatively
- if you are unable to attend the annual general meeting but wish to be represented at the meeting, you must contact your CSDP or broker, as the case may be, and furnish it with your voting instructions in respect of the annual general meeting and / or request it to appoint a proxy. You must not complete the attached form of proxy. The instructions must be provided in accordance with the mandate between yourself and your CSDP or broker, as the case may be, within the time period required by your CSDP or broker, as the case may be.

CSDPs, brokers or their nominees, as the case may be, recorded in the Company's sub-register as holders of dematerialised shares held on behalf of an investor/beneficial owner in terms of STRATE should, when authorised in terms of their mandate or instructed to do so by the person on behalf of whom they hold dematerialised shares, vote by either appointing a duly authorised representative to attend and vote at the annual general meeting or by completing the attached form of proxy in accordance with the instructions thereon and returning it to the office of the Company's transfer secretaries Computershare Investor Services (Pty) Limited, 15 Biermann Avenue, Rosebank 2196 (PO Box 61051, Marshalltown, 2107) to be received by 11h30 on 14 October 2020 for administrative purposes, or delivering such form by hand thereafter to the Company Secretary, before the proxy exercises any rights of the shareholder at the meeting. In order to facilitate proceedings at the annual general meeting, shareholders intending to appoint a proxy are requested to do so as soon as is reasonably practical.

In accordance with section 63(1) of the Act, participants at the annual general meeting will be required to provide proof of identification to the reasonable satisfaction of the chairman of the annual general meeting and must accordingly provide a copy of their identity document, passport or driver's licence at the annual general meeting for verification.

Shareholders of the Company that are companies, that wish to participate in the annual general meeting, may authorise any person to act as its representative at the annual general meeting.

**Voting at the annual general meeting:**

On a show of hands, every shareholder present in person (or by way of electronic participation) or represented by proxy at the annual general and entitled to vote, shall have only one vote irrespective of the number of shares such shareholder holds. On a poll, shareholders present in person (or by way of electronic participation) or represented by proxy at the annual general and entitled to vote, shall be entitled to 1 vote per ordinary share held by such shareholder.

Unless otherwise specifically provided in this notice of annual general meeting, for any of the ordinary resolutions to be adopted, 50% of the voting rights plus 1 vote exercised on each such ordinary resolution must be exercised in favour thereof. For any special resolutions to be adopted, at least 75% of the voting rights exercised on each special resolution must be exercised in favour thereof.

Details of directors, shareholders, share capital and analysis of shareholders, no-change statement and directors' responsibility statement.

The integrated annual report of which this notice of annual general meeting forms part, provides details of:

- the directors and management of the Company, including brief CVs of the directors nominated for re-election, on pages 38 and 40;
- the major shareholders of the Company on page 37;
- the directors' interests in securities on page 50; and
- the share capital of the Company in note 17 and an analysis of shareholders on page 36.

**No-change statement:**

Other than the facts and developments reported on in the integrated annual report, there have been no material changes to the Company and its subsidiaries ("the group") financial or trading position, nor are there any legal or arbitration proceedings that may materially affect the financial position of the group between the signature date of the audit report and the date of this notice.

**Director's responsibility statement:**

The directors, whose names appear on inside back cover of the integrated annual report, collectively and individually, accept full responsibility for the accuracy of the information given in this notice and certify that, to the best of their knowledge and belief, that there are no facts that have been omitted which would make any statement in this notice false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the annual report and this notice of annual general meeting contains all information required by the Listings Requirements of the JSE ("JSE Listings Requirements").

**Purpose of annual general meeting:**

The purpose of the annual general meeting is for the following business to be transacted, and to consider and, if approved, to pass with or without modification, the following ordinary and special resolutions, in the manner required by the Company's memorandum of incorporation ("MOI"), the Act, as read with the JSE Listings Requirements. Presentation of the Audited Annual Financial Statements of the Company, including the reports of the directors, external auditors and the audit committee, for the year ended 31 March 2020 In terms of the Act, the audited annual financial statements of the Company (including the reports of the directors and the audit committee) for the year ended 31 March 2020 as approved by the board of directors will be presented to the shareholders of the Company.

1. A summary of the annual financial statements of the group is set out on pages 76 to 88 of the integrated annual report, of which this notice of annual general meeting forms part. This summary is not exhaustive and the complete annual financial statements of the group should be read in their entirety for a full appreciation of their contents. The complete audited annual financial statements of the group, including the unmodified audit opinion, are available on HCI's website at www.hci.co.za.

   Alternatively, shareholders of the Company may request and obtain a copy of the complete annual financial statements of the group in person, at no charge, at the registered office of HCI (Suite 801, 76 Regent Road, Sea Point 8005) during office hours.

2. Presentation of Social and Ethics Committee Report In accordance with Regulation 43 of the Companies Regulations, 2011, the Company's Social and Ethics Committee report for the financial year ended 31 March 2020, prepared and approved by the Company's Social and Ethics Committee and set out on pages 53 to 72 of the integrated annual report, of which this notice of annual general meeting forms part, will be presented to the shareholders of the Company. Any specific questions to the Social and Ethics Committee may be sent to the Company Secretary prior to the annual general meeting.

3. Ordinary resolution number 1 (1.1 to 1.5): Election of directors

   3.1. Ordinary resolution number 1.1: Election of Mr JA Copelyn as director

   "Resolved that Mr JA Copelyn be and is hereby elected as a director of the Company."

   3.2. Ordinary resolution number 1.2: Election of Mr FM Magugu as director

   "Resolved that Mr FM Magugu be and is hereby elected as a director of the Company."

   3.3. Ordinary resolution number 1.3: Election of Mr VE Mphande as director

   "Resolved that Mr VE Mphande be and is hereby elected as a director of the Company."

Explanatory Note

Mr JA Copelyn, Mr FM Magugu and Mr VE Mphande retire as directors in accordance with the Company's MOI but, being eligible, each offer themselves for re-election as a director of the Company.

The board has considered the proposed election of Mr JA Copelyn, Mr FM Magugu and Mr VE Mphande and recommends that they be re-elected as directors of the Company. Brief CV details of the abovementioned directors are on pages 38 and 40 of the integrated report, of which this notice of annual general meeting forms part.

The reason for ordinary resolution numbers 1.1 to 1.3 is to propose the re-election of Mr JA Copelyn, Mr FM Magugu and Mr VE Mphande who have retired as directors in accordance with the Company's MOI. These elections will be conducted by a series of separate votes in respect of each candidate. Accordingly, the shareholders are requested to consider and if deemed fit, to re-elect Mr JA Copelyn, Mr FM Magugu and Mr VE Mphande by way of passing the ordinary resolutions set out above.

3.4 Ordinary resolution number 1.4 Election of Ms L McDonald as director:

"Resolved that Ms L McDonald be and is hereby elected as a director of the company."

3.5 Ordinary resolution number 1.5: Election of Ms SNN Mkhwanazi-Sigege as director

"Resolved that Ms SNN Mkhwanazi-Sigege be and is hereby elected as a director of the company."

Explanatory Note

Brief CV details of Ms L McDonald and Ms SNN Mkhwanazi-Sigege are on page 39 of the integrated report, of which this notice of annual general meeting forms part.

The reason for ordinary resolution numbers 1.4 and 1.5 is to elect the directors of the company who were appointed during the course of the year and who retire as a director in accordance with the Companies Act of 2008, as amended. These elections will be conducted by a series of separate votes in respect of each candidate. Accordingly, the shareholders are requested to consider and, if deemed fit, to re-elect Ms L McDonald and Ms SNN Mkhwanazi-Sigege by way of passing the ordinary resolution numbers 1.4 and 1.5 set out above.

4. Ordinary resolution number 2: Re-appointment of auditors

"Resolved that BDO South Africa Incorporated and Mr Schoeman, as designated auditor, is hereby appointed as the auditor to the Company for the ensuing year."

Explanatory Note

In terms of the Act, the Company, being a public company, must have its financial results audited and such auditor of the Company must each year at the Company's annual general meeting be appointed or re-appointed, as the case may be, as an external auditor. The Company's current external auditor is BDO South Africa Incorporated, which has indicated that Mr Schoeman who is a director of the firm and a registered auditor and accredited with the JSE in accordance with the JSE Listings Requirements will undertake the audit.

The Company's audit committee has recommended that BDO South Africa Incorporated be re-appointed as the auditors of the Company, for the ensuing year and to note that the individual registered auditor who will undertake the audit during the financial year ending 31 March 2021 is Mr Schoeman.

5. Ordinary resolution number 3: Appointment of audit committee

5.1. Ordinary resolution number 3.1: Election of Mr MSI Gani as member of the audit committee

"Resolved that Mr MSI Gani be and is hereby appointed to the audit committee of the Company."

5.2. Ordinary resolution number 3.2: Election of Mr JG Ngcobo as member of the audit committee

"Resolved that Mr JG Ngcobo be and is hereby appointed to the audit committee of the Company."

5.3. Ordinary resolution number 3.3: Election of Ms RD Watson as member of the audit committee

"Resolved that Ms RD Watson be and is hereby appointed to the audit committee of the Company."

Explanatory Note

In terms of the Act, at each annual general meeting an audit committee comprising at least three members must be elected. It is proposed that the following independent non-executive directors be elected as members of the audit committee for the ensuing year. The board has considered the proposed appointment of Mr MSI Gani, Mr JG Ngcobo and Ms RD Watson and recommends that they be appointed (or re-appointed, as the case may be) to the audit committee. The appointment of each member of the audit committee will be voted on separately.

Brief CV details of the abovementioned directors are on page 38 of the integrated report, of which this notice of annual general meeting forms part.

6. Ordinary resolution number 4: General authority over authorised but unissued shares:

"Resolved that, as required by the Company's MOI and subject to the provisions of the Act and the JSE Listings Requirements, the authorised but unissued shares in the Company be and are hereby placed under the control of the directors, subject to the provisions of the Act, the MOI and the JSE Listings Requirements, as presently constituted and which may be amended from time to time, and provided such authority will endure until the next annual general meeting of the Company (whereupon this authority shall lapse, unless it is renewed at the aforementioned annual general meeting), provided that it shall not extend beyond 15 (fifteen) months of the date of this meeting until the next annual general meeting."

Explanatory Note

In terms of the Company's MOI, read with the JSE Listings Requirements, the shareholders of the Company may authorise the directors to, inter alia, issue any authorised but unissued ordinary shares and/or grant options over them on such terms and conditions and to such persons whether they be shareholders or not, as the directors in their discretion deem fit.

The authority will be subject to the provisions of the Act and the JSE Listings Requirements. The board has decided to seek annual renewal of this authority from the shareholders of the Company in accordance with best practice. The board has no current plans to make use of this authority (other than in terms of the HCI employee share scheme), but wish to ensure, by having this authority in place, that the Company retains its flexibility in managing the group's capital resources and to enable the Company to take advantage of any business opportunity that may arise in the future.

7. Non-Binding advisory votes: Advisory endorsement of the remuneration policy and implementation report

7.1. Non-binding advisory vote 1: Remuneration Policy

"Resolved, by way of a non-binding advisory vote, that the Company's remuneration policy accompanying this notice of annual general meeting be accepted and endorsed".

7.2. Non-binding advisory vote 2: Remuneration Implementation Report

"Resolved, by way of a non-binding advisory vote, that the Company's implementation report accompanying this notice of annual general meeting be accepted and endorsed".

Explanatory Note

In terms of Part 5.4, principle 14 (recommended practice 37) of the King IV Report on Corporate Governance in South Africa, 2016 ("King IV") the Company's remuneration policy and implementation report should be tabled to shareholders for separate non-binding advisory votes at the annual general meeting. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation. Furthermore, King IV recommends that the remuneration policy should record the measures that the board commits to in the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% (twenty-five percent) or more of the voting rights exercised by the shareholders. The shareholders are requested to separately endorse the Company's remuneration policy on pages 45 to 46 and the implementation report on pages 47 to 52 in the Remuneration Report, by way of separate non-binding advisory votes.

8. Special resolution number 1: General authority to issue shares, options and convertible securities for cash

"Resolved that, subject to the passing of ordinary resolution number 4, the provisions of the Act and the provisions of the JSE Listings Requirements, the directors be and are hereby authorised to allot and issue ordinary shares of the Company (or to issue options or convertible securities convertible into ordinary shares) for cash to such person or persons, on such terms and conditions as they may deem fit, subject to the following:

- the securities shall be of a class already in issue, or convertible into a class already in issue;
- the securities shall be issued to public shareholders as defined in the JSE Listings Requirements and not to related parties as defined in the JSE Listings Requirements;
- ordinary shares which are the subject of general issues for cash, in the aggregate, may not exceed 5% (five percent) of the Company's relevant number of ordinary shares in issue as at the date of this notice, constituting 4 071 588;
- any number of ordinary shares issued under the authority must be deducted from the number of ordinary shares authorised immediately above; and
- the maximum discount at which the shares may be issued shall be 10% (ten percent) of the weighted average traded price of the shares of the Company over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the Company; and
- the Company shall publish such announcements (if any) as may be required by the JSE Listings Requirements pursuant to the issue of shares under this authority; and the authority hereby granted will be valid until the Company's next annual general meeting provided that it will not extend beyond 15 months from the date on which this resolution is passed."

Explanatory Note

In terms of ordinary resolution number 4, the shareholders authorise the directors to allot and issue a portion of the authorised but unissued shares, as the directors in their discretion think fit. The existing general authority to issue shares for cash granted by the shareholders at the previous annual general meeting, held on 12 September 2019, will expire at this annual general meeting, unless renewed. The authority will be subject to the provisions of the Act and the JSE Listings Requirements. The aggregate number of ordinary shares capable of being allotted and issued for cash are limited as set out in the resolution. The directors consider it advantageous to renew this authority to enable the Company to take advantage of any business opportunity that may arise in future.

9. Special resolution number 2: Approval of annual fees to be paid to non-executive directors

"Resolved that for the period 1 October 2020 until the date of the next annual general meeting of the Company, the remuneration payable to non-executive Directors of the Company for their services as directors as follows:

| Position | Current Fee | Proposed Fee |
|---|---|---|
| | excl VAT | R'000 |
| Non-executive director | 323.6 | 323.6 |
| Member of audit committee | 161.8 | 161.8 |
| Member of remuneration committee | 84.9 | 84.9 |
| Member of social and ethics committee | 40.0 | 40.0 |

Notwithstanding the above, non-executive directors who attend committee meetings of the board shall be eligible to receive up to a maximum of 50% of the board fees, as determined by the board.

Explanatory Note

In terms of section 66(8) of the Act, the Company may pay remuneration to its directors for their services as directors. In terms of section 66(9) of the Act the remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the holders during the previous 2 (two) years.

10. Special resolution number 3: General authority to repurchase Company shares

"Resolved that the Company hereby approves, as a general approval contemplated in paragraph 5.72 of Section 5 of the JSE Listings Requirements, the repurchase by the Company or any of its subsidiaries from time to time of the issued ordinary shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the MOI, the provisions of the Act and the JSE Listings Requirements, as presently constituted and which may be amended from time to time, and provided further that:

- acquisitions by the Company and its subsidiaries of shares in the capital of the Company in terms of this general authority to repurchase shares may not, in the aggregate, exceed in any one financial year 20% (twenty percent) of the Company's issued share capital of the class of the repurchased shares from the date of the grant of this general authority;
- any such repurchase shall be effected through the order book operated by the JSE trading system, without any prior understanding or arrangement between the Company and the counterparty;
- the Company (or any subsidiary) is authorised to do so in terms of its MOI;
- this general authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- in determining the price at which the Company's shares are repurchased by the Company or its subsidiaries in terms of this general authority, the maximum premium at which such shares may be acquired may not be greater than 10% (ten percent) above the weighted average of the market price at which such shares are traded on the JSE for the 5 (five) business days immediately preceding the date the repurchase transaction is effected;
- at any point in time, the Company may only appoint one agent to effect any repurchase(s) on the Company's behalf;
- the Company or its subsidiaries may not repurchase shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless there is a repurchase programme in place and the dates and quantities of shares to be repurchased during the relevant period are fixed and full details thereof have been submitted to the JSE in writing prior to commencement of the prohibited period. The Company must instruct an independent third party, which makes its investment decisions in relation to the Company's securities independently of, and uninfluenced by, the Company, prior to the commencement of the prohibited period to execute the repurchase programme submitted to the JSE;
- an announcement will be published as soon as the Company and/or its subsidiaries has/have acquired shares in terms of this authority constituting, on a cumulative basis, 3% (three per cent) of the initial number of shares of the class of shares in issue at the time that this general authority is granted by the shareholders, and each time the Company acquires a further 3% (three per cent) of the initial number thereafter, which announcement(s) shall contain full details of such repurchases as required in terms of the JSE Listings Requirements; and
- a repurchase shall only be effected if the board of directors have at the time of the repurchase passed a resolution authorising the repurchase in terms of sections 48 and 46 of the Act and it reasonably appears that the Company and its subsidiaries have satisfied the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Company and its subsidiaries."

Explanatory note

The reason for special resolution number 3 is to grant the directors of the Company and/or subsidiaries of the Company a general authority in terms of the Act and the JSE Listings Requirements to acquire the Company's ordinary shares, subject to the terms and conditions set out in the special resolution. The directors require that such general authority should be implemented in order to facilitate the repurchase of the Company's ordinary shares in circumstances where the directors consider this to be appropriate and in the best interests of the Company and its shareholders.

**Director's statement:**

Pursuant to and in terms of the JSE Listings Requirements, the board of directors of the Company hereby states that:

- it is their intention to utilise the general authority to acquire shares in the Company if at some future date the cash resources of the Company are in excess of its requirements and the opportunity presents itself to do so during the year, which the board deems to be in the best interest of the Company and its shareholders, taking prevailing marketing conditions and other factors into account;
- in determining the method by which the Company intends to acquire its shares, the maximum number of shares to be acquired and the date on which such repurchase will take place, the directors of the Company will only make the repurchase if at the time of the repurchase they are of the opinion that the following conditions have been and will be met:
  - the Company and the group will be able to pay their debts for a period of 12 (twelve) months after the date of this notice of the annual general meeting;
  - the assets of the Company and the group are to be in excess of the liabilities of the Company and group for a period of 12 (twelve) months after the date of this notice of annual general meeting (for this purpose the assets and liabilities are recognised and measured in accordance with the accounting policies used in the audited financial statements for the year ended 31 March 2020);
  - the share capital and reserves of the Company and the group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of this notice of the annual general meeting;
  - the working capital of the Company and the group are adequate for the ordinary business purposes or a period of 12 (twelve) months after the date of approval of this notice of the annual general meeting; and
  - resolution being passed by the board that it authorised the repurchase of shares, that the Company and its subsidiaries have passed the solvency and liquidity test and that since the test was performed there have been no material changes to the financial position of the group. The authority granted in terms of this Special Resolution number 3 is limited to paragraph 5.72(a), (c), (d) and paragraph 5.68 of the JSE Listings Requirements.

The following additional information, some of which may appear elsewhere in the annual report of which this notice forms part, is provided in terms of the JSE Listings Requirements for purposes of this general authority:

- major beneficial shareholders – page 37 of the document of which this notice of annual general meeting forms part; and
- share capital of the Company – page 36 of the document of which this notice of annual general meeting forms part.

11.Special resolution number 4: Shareholders' general authorisation of financial assistance

"Resolved that, to the extent required by sections 44 and 45 of the Act, the board of directors of the Company may, subject to compliance with the requirements of the Company's MOI and the Act, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of a loan, guarantee, the provision of security or otherwise, to;

11.1.any person for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company; and/or

11.2.any of its present or future subsidiaries and/ or any other company or corporation that is or becomes related to or inter-related with the Company for any purpose or in connection with any matter; and/or

11.3.any of the present or future directors or prescribed officers (or any person related to any of them or to any company or entity related or inter-related to any of them), or to any other person who is or may be a participant in any of the HCI employee share scheme, current or future employee share plans or other incentive schemes, or any share scheme trust or other entity facilitating any such scheme, for the purpose of, or in connection with, the subscription for any option, or any securities, issued or to be issued by the company or a related or inter-related company or entity or forthe purchase of any securities of the company or a related or inter-related company, where such financial assistance is provided in terms of any such plan or scheme that does not constitute an employee share scheme that satisfies the requirements of section 97 of the Act. The financial assistance may be provided at any time during the period commencing on the date of the adoption of this resolution and ending 2 (two) years after such date."

Explanatory Note

As part of the normal conduct of the business of the Company and its subsidiaries from time to time, the company, where necessary, provides financial assistance to its related and inter-related companies and entities (as contemplated in the Act) including the provision of guarantees and other forms of security to third parties which provide funding to the company's subsidiaries, whether by way of loans, subscribing for shares (including preference shares) or otherwise. In the circumstances and in order to ensure that, among other things, the company and its subsidiaries and other related and inter-related companies and entities continue to have access to, and are able to appropriately structure their financing for purposes of funding their corporate and working capital requirements, it is necessary that the company obtains the approval of shareholders in terms of this special resolution number 4.

The Company may furthermore wish to provide financial assistance to its subsidiaries and other related and inter-related companies and corporations including pursuant to the Company's employee and other share schemes.

Sections 44 and 45 of the Companies Act provide that the financial assistance required can only be provided pursuant to a special resolution of the shareholders, adopted within the previous two years, which resolution must have approved such financial assistance either for the specific recipient or generally for a category of potential recipients (and the specific recipient falls within that category), and the directors must be satisfied that:

- immediately after providing the financial assistance, the company will satisfy the solvency and liquidity test as defined in section 4 of the Act; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

The passing of this special resolution number 4 will have the effect of authorising the Company to provide direct or indirect financial assistance in accordance with sections 44 and 45 of the Companies Act, for a period of two years after the adoption of this resolution.

12. Ordinary Resolution number 5: Directors' authority to implement Company resolutions

"Resolved that each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of the resolutions passed at this meeting."

13. To transact such other business which may be transacted at an annual general meeting.

By order of the Board

24 August 2020

Cape Town

# CORPORATE ADMINISTRATION

| | |
|---|---|
| COMPANY REGISTRATION NUMBER: | 1973/007111/06 |
| SHARE CODE: | HCI ISIN: ZAE000003257 |
| REGISTERED OFFICE: | Suite 801, 76 Regent Road, Sea Point, Cape Town 8005<br>PO Box 5251, Cape Town, 8000<br>Telephone: 021 481 7560 |
| WEBSITE ADDRESS: | www.hci.co.za |
| COMPANY SECRETARY: | HCI Managerial Services Proprietary Limited |
| DIRECTORS: | *Executive Directors*<br>John Anthony Copelyn (Chief Executive Officer)<br>James Robert Nicolella (Financial Director)<br>Theventheran Govindsamy Govender<br>Yunis Shaik<br><br>*Independent Non-Executive Directors*<br>Mahomed Salim Ismail Gani<br>Mimi Freddie Magugu<br>Rachel Doreen Watson<br>Velaphi Elias Mphande (Chairman)<br>Jabulani Geffrey Ngcobo<br><br>*Non-Executive Directors*<br>Laurelle McDonald<br>Sinqumile Nqobani Njongwe Mkhwanazi-Sigege |
| AUDITORS: | BDO South Africa Incorporated<br>Wanderers Office Park, 52 Corlett Drive, Illovo, 2196<br>Private Bag X10046, Sandton, 2146 |
| BANKERS: | First National Bank of Southern Africa Limited |
| TRANSFER SECRETARIES: | Computershare Investor Services Proprietary Limited<br>Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 South Africa<br>Private Bag X9000, Saxonwold, 2132 |
| SPONSOR: | Investec Bank Limited<br>100 Grayston Drive, Sandton, Sandown, 2196 |

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