Hosken Consolidated Investments Limited

REVIEWED PROVISIONAL RESULTS FOR THE YEAR ENDED 31 MARCH 2020

INCOME	+2.7%
EBITDA	+2.6%
HEADLINE EARNINGS	+1.8%
HEADLINE EARNINGS PER SHARE	+5.3%

CORPORATE ADMINISTRATION

Directors:
JA Copelyn (Chief Executive Officer)
JR Nicolella (Financial Director)
TG Govender
Y Shaik
MSI Gani*
MF Magugu*
L McDonald**
SNN Mkhwanazi-Sigege*
VE Mphande* (Chairman)
JG Ngcobo*
R Watson*

* Independent non-executive
** Non-executive

HOSKEN CONSOLIDATED INVESTMENTS LIMITED
Incorporated in the Republic of South Africa
Registration number: 1973/007111/06
Share code: HCI
ISIN: ZAE000003257
("HCI" or "the company" or "the group")

Company secretary:
HCI Managerial Services Proprietary Limited

Registered office:
Suite 801, 76 Regent Road, Sea Point,
Cape Town, 8005
PO Box 5251, Cape Town, 8000
Telephone: 021 481 7560
Telefax: 021 434 1539

Auditors:
BDO South Africa Incorporated
Wanderers Office Park, 52 Corlett Drive, Illovo, 2196
Private Bag X10046, Sandton, 2146

Transfer secretaries:
Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196
PO Box 61051, Marshalltown, 2107

Sponsor:
Investec Bank Limited
100 Grayston Drive, Sandton, Sandown, 2196

Website address:
www.hci.co.za

INVESTMENTS

Tsogo Sun Gaming

Tsogo Sun Hotels

eMedia Holdings

Vukani Gaming Corporation

Galaxy Bingo

OpenView HD

Golden Arrow Bus Service

HCI Coal

Karoshoek

Deneb Investments

Platinum Group Metals

HCI Properties (division)

Impact Oil & Gas

Hosken Passenger Logistics & Rail

Business Systems Group (Africa)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 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	**Reviewed 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*

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Reviewed 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

	Reviewed 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*

RECONCILIATION OF HEADLINE EARNINGS

	% change	Reviewed year ended 31 March 2020 Gross R'000	Reviewed 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
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 CASH FLOWS

	Reviewed 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

	Revenue 31 March		Net gaming win 31 March	
	2020 R'000	2019* R'000	**2020 R'000**	2019 R'000
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

	Property rental income 31 March		EBITDA 31 March	
	2020 R'000	2019* R'000	**2020 R'000**	2019* R'000
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

	Profit/(loss) before tax 31 March		Headline earnings/(losses) 31 March	
	2020 R'000	2019* R'000	**2020 R'000**	2019* R'000
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 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**
Total	**14 251 456**	**612 338**	**60 376**	**14 924 170**
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
Total	13 562 986	660 362	102 644	14 325 992

* *Restated*

SEGMENTAL ANALYSIS (CONTINUED)

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

	Revenue recognised over time R'000	Revenue recognised at a point in time R'000	Total 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**
Total	**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
Total	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.

RESULTS

GROUP STATEMENT OF PROFIT OR LOSS AND SEGMENTAL ANALYSIS

Income increased by 2.7% to R25 795 million

EBITDA increased by 2.6% to R6 762 million

Profit before tax decreased by 421% to R(8 942) million

Headline earnings increased by 1.8% to R1 047 million

Headline earnings per share increased by 5.3% to 1 263 cents per share

Media and broadcasting

A 4% increase in advertising revenue was recorded in a difficult television advertising environment. Licence fee revenue increased by 4%. Property and facility and content revenue increased by a combined 15%. Advertising revenue from the OpenView business increased to R194 million from R132 million in the prior year. Active set top boxes have increased from 1 574 395 in the prior year to 1 992 844 at this year-end. EBITDA increased by 33%, assisted by a decrease of 28% in marketing costs following reduced subsidies on set top boxes, an only 2% increase in signal distribution costs and general cost control. Profit before tax increased by R120 million (53%), the aforementioned EBITDA increase aided by a decrease in finance costs of R7 million. Headline earnings attributable to the group increased by 76%, with the company incurring a reduced effective rate of tax in the current year.

Gaming

Overall income remained static, with gaming operations experiencing a severe contraction in business in the weeks ahead of lockdown. Casino income decreased by 1%. Vukani's income increased by 6% and that of Galaxy Bingo's operations by 9%. EBITDA increased approximately 3% over the prior year, assisted by a reduction of 6% in employee costs and R122 million in lease expenses on the adoption of IFRS 16. Depreciation and amortisation increased by R142 million and finance costs by R147 million, finance costs impacted by R136 million in recycled ineffective cash flow hedge losses. The adoption of IFRS 16 resulted in an additional R60 million in depreciation and amortisation and R44 million in finance costs. Losses before tax includes impairments of casino licences of R9 170 million; downward fair value adjustments on investment property of R81 million; and impairments of significantly property, plant and equipment of R191 million. Headline earnings reduced by 16% and includes an effective R67 million of the cash flow hedge ineffective portion recycled to profit and loss.

Hotels

Hotels revenue, including rental income, increased by 2%. SA-owned properties increased revenue by 5%, aided by trading in the Western Cape, which was significantly affected by the drought in the prior year. Also included from 1 November 2019 is the full revenue of three Sandton hotels. Offshore hotel revenue decreased by 6%. EBITDA decreased only marginally, with reduced rentals of R126 million on adoption of IFRS 16 being off-set by reduced operational profitability and restructuring costs in the current year. Losses before tax include downward fair value adjustments on investment properties of R888 million, impairments of land and buildings of R822 million, the impairment of goodwill of R810 million and the impairment of brands of R33 million.

Transport

Transport revenue increased by 15%. A prolonged bus driver strike during April and May 2018 affected the prior year and did not recur during the current year. In addition, the acquisition of Sibanye resulted in additional revenue of R91 million in the current year. EBITDA increased by 18%, with EBITDA margin improving slightly to 25%. Profit before tax increased by 10%, impacted by a decrease of R23 million in interest income relating to the previously held promissory notes. Headline earnings attributed to the group was enhanced by the group's increase in interest in Hosken Passenger Logistics and Rail in the current year.

Properties

Properties' combined revenue and rental income increased by 6% due to new development revenue of R23 million from Solly Sachs House and R23 million from the newly established catering operations at the Gallagher Convention Centre, with annual escalations and tenanting efficiencies in the rest of the portfolio responsible for the remaining increase. Conferencing and exhibition revenue reduced by R21 million, following the cancellation of bookings in the months prior to lockdown. EBITDA increased by 10%, with EBITDA margin increasing slightly from 48% to 50% following further tenanting in the Solly Sachs House, The Palms, Monte Circle precinct and Westlake industrial complex. Profit before tax was enhanced by a net R11 million in upward fair value adjustments (2019: R22 million) and a profit on disposal of the group's interest in Protea Place in Claremont of R29 million. Finance costs increased by R13 million in the current year. Headline earnings increased in line with EBITDA, adjusting for tax.

NOTES AND COMMENTARY (CONTINUED)

Coal mining
Revenue increased by 63% at the Palesa Colliery following an increase in transport revenue, as well as the sale price and volumes of coal in terms of the Eskom offtake agreement finalised in the previous year. Sales volumes at Palesa increased by 524 000 tons (24%) following the appointment of a new mining contractor. Revenue decreased by 58% and sales volumes by 45% to 504 000 tons at the Mbali Colliery. Volumes were affected by community unrest and the cancellation of the mining contractor agreement. A new contractor was appointed during the year; however, Eskom's ability to receive coal and sales prices remain under pressure. Mining volumes at Mbali will remain at the current reduced levels until the end of the life of mine due to the area of the reserve being mined. Average sales prices achieved at the Mbali Colliery were 23% lower than the prior year. EBITDA decreased by 36% as a result of the decrease in sales volumes and prices achieved at the Mbali Colliery. EBITDA increased by R139 million (104%) at the Palesa Colliery with EBITDA margin increasing from 16% to 20%. Following the deteriorated performance at the Mbali Colliery, EBITDA losses of R14 million were recorded, as opposed to profits of R261 million in the prior year. Profit before tax and headline earnings decreased in accordance with EBITDA.

Branded products and manufacturing
Revenue in respect of branded products and manufacturing decreased by 3% and property rental income increased by 10%, with growth in revenue attributable to Formex more than off-set by decreases in industrial product manufacturing and branded product distribution revenue. EBITDA increased by 17%, positively impacted by a reduction of R30 million in lease rentals due to the adoption of IFRS 16 in the current year. The increase in EBITDA was off-set by an increase in finance costs of R17 million and depreciation of R19 million due to the adoption of IFRS 16. Losses before tax includes R28 million in downward adjustments to investment properties and impairments of R29 million. Losses from discontinued operations increased by R40 million in the current year.

Oil and gas prospecting
Equity losses in respect of Impact Oil and Gas decreased from the prior year's R172 million to R159 million in the current year, which includes an effective R155 million impairment loss in respect of the relinquishment of an exploration licence in Gabon and an effective R40 million share in the upward revaluation of Impact Oil and Gas' interest in the Brulpadda prospect off the coast of Mossel Bay. The upward revaluation was included in headline earnings.

Palladium prospecting
Equity losses of R40 million were recognised in the current year and contained no significant headline adjusting items.

Other
EBITDA losses increased by R33 million in the current year, losses of R21 million of the HCI Foundation being included for the first time in the current year and increased costs of R5 million incurred in respect of the group's internal audit function. Losses before tax decreased by R302 million compared to the prior year. R258 million in interest was received from Ithuba Holdings, the current National Lottery operator, in accordance with an arbitration award relating to funding arrangements implemented in April 2015 and subsequently repudiated by the counterparty. R112 million in downward fair value adjustments to investment properties were recognised by La Concorde Holdings (La Concorde) in the prior year compared to R7 million in the current year. Equity losses of R28 million were included in profit before tax for the first time in respect of Karoshoek, as well as losses of R22 million in respect of the HCI Foundation. Included in the current year's headline loss is R229 million head office finance costs, the aforementioned losses from Karoshoek and the after-tax amount of interest received from Ithuba Holdings, with the remainder being head office and other overheads of the group's internal audit function, the company, Niveus Investments and La Concorde.

Notable items on the consolidated income statement include:
Depreciation and amortisation increased by R228 million, the adoption of IFRS 16 resulting in R152 million of the increase.

Investment income increased by R259 million, with R258 million received from Ithuba Holdings in the current year, as noted above.

Finance costs increased by R413 million, R136 million due to the recycling of ineffective hedge losses in Tsogo Sun Gaming and R168 million due to the adoption of IFRS 16.

Losses from associates and joint ventures includes R8 million and R13 million profit from BSG Africa and Protea Place, respectively, R25 million profit from Cape Town Film Studios, R159 million in losses from IOG, and R28 million and R40 million in losses from Karoshoek and Platinum Group Metals, respectively.

An investment surplus of R29 million relates to the sale of the group's interest in Protea Place.

R888 million in downward fair value adjustments on investment properties were recognised by the group's hotel operations, R81 million by gaming operations, R28 million by branded products and manufacturing operations and R7 million by other operations. A net amount of R11 million in upward fair value adjustments were recognised by the group's properties division.

R9 170 million in impairment losses relating to casino licences were recognised in respect of gaming operations and R33 million relating to brands in respect of hotel operations. R822 million in impairment losses were recognised on property, plant and equipment in respect of hotel operations and R191 million in respect of gaming operations, significantly on property, plant and equipment. Property, plant and equipment of R29 million was impaired by branded products and manufacturing continuing operations.

R810 million in goodwill relating to hotel operations was impaired and R8 million relating to branded products and manufacturing. Associate investments of the group were impaired by R29 million.

Headline earnings increased by 1.8%. Headline earnings per share increased by 5.3%. The weighted average number of shares in issue in the prior year of 85 696 000 was reduced to 82 876 000 in the current year due to the general repurchase of shares during the current year, which resulted in the discrepancy between the gross and per share profit increase.

GROUP STATEMENT OF FINANCIAL POSITION AND CASH FLOW

Group non-current borrowings at 31 March 2020 comprise central investment property-related borrowings of R1 965 million, borrowings in Tsogo Sun Gaming and Tsogo Sun Hotels of R11 200 million and R3 974 million, respectively and the remainder in other operating subsidiaries. Following the breach of certain security cover ratios in respect of the company's central borrowings shortly before the reporting date, these borrowings have been classified as current even though these balances were refinanced into longer-term borrowings in September 2019. The balances affected were R2 355 million in total as at the reporting date. Further balances included in the current portion of borrowings is R1 053 million central borrowings and R530 million in current borrowings in Tsogo Sun Gaming. Bank overdraft facilities include R2 559 million in Tsogo Sun Gaming, R559 million in Tsogo Sun Hotels, R729 million at head office and R109 million in Deneb.

Included in cash flows from investing activities is investments in associates of R443 million, of which R255 million relates to further investment in Platinum Group Metals and R164 million to Impact Oil and Gas. Net expenditure on investment properties amounted to R342 million. R1 762 million was invested in property, plant and equipment, of which R1 153 million by Tsogo Sun Gaming and R231 million by Tsogo Sun Hotels. Included in cash flows from financing activities are shares repurchased in the amount of R374 million. R105 million was paid by Hosken Passenger Logistics and Rail to purchase non-controlling shareholders' interests in subsidiaries, with further expenditure of R245 million on purchasing non-controlling interests throughout the group and R100 million in share repurchases done by Tsogo Sun Gaming. Net funding of R416 million was raised at head office and R573 million at the Tsogo Sun entities.

Shareholders are referred to the individually published results of eMedia Holdings Limited, Tsogo Sun Gaming Limited, Tsogo Sun Hotels Limited, Deneb Investments Limited and Hosken Passenger Logistics and Rail Limited for further commentary on the media and broadcasting; gaming; hotels; branded products and manufacturing; and transport operations.

DISPUTES

The company was awarded a final arbitration award in respect of its litigation with Ithuba Holdings (RF) Proprietary Limited and certain of its associated entities. The respondent has sought a review of the award, which will be heard during June 2020.

EVENTS SUBSEQUENT TO REPORTING DATE

As a result of the COVID-19 pandemic, South Africa implemented restrictive governmental measures to control the spread of the virus, which included a national lockdown commencing on 27 March 2020 and ending end of April 2020. Certain of the group's operations, which were prohibited from trading during the lockdown, returned in a phased manner from 1 May 2020, however the group's gaming operations have remained closed as a result of the remaining restrictive measures and its hotel operations' ability to trade remains restricted.

As the situation continues to evolve with changes in governmental regulations and evolving business and consumer reactions thereto, as at the date of these condensed financial statements the directors of the company considered that the further financial effects of COVID-19 on the group's consolidated financial statements cannot be reasonably estimated.

The directors are not aware of any matter or circumstance arising since the reporting date and the date of this report other than the matters disclosed within these condensed consolidated financial statements.

AUDITOR'S REVIEW

These condensed consolidated financial statements for the year ended 31 March 2020 have been reviewed by BDO South Africa Inc., who expressed an unmodified review conclusion.

A copy of the auditor's report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

CHANGES IN DIRECTORATE

Ms CC September and Dr LM Molefi resigned as independent non-executive directors effective 22 May 2019. Mr JR Nicolella was appointed as an executive director on 22 May 2019, replacing Mr TG Govender, who has remained as an executive director, as financial director on 1 August 2019. Ms SNN Mkhwanazi was appointed as an independent non-executive director effective 2 September 2019 and Ms L McDonald as a non-executive director effective 19 March 2020.

DIVIDEND TO SHAREHOLDERS

Due to the impact of the COVID-19 pandemic on the group's operations and the requirement to preserve cash resources, the directors have resolved not to declare a final dividend.

For and on behalf of the board of directors

JA Copelyn
Chief Executive Officer

JR Nicolella
Financial Director

Cape Town
17 June 2020

www.hci.co.za

Hosken Consolidated Investments Limited