Hosken Consolidated Investments Limited

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

CORPORATE ADMINISTRATION

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")

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

* Independent non-executive **Non-executive

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
Private Bag X9000, Saxonwold, 2132

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

	Unaudited 30 September 2020 R'000	Unaudited 30 September 2019* R'000	Audited 31 March 2020** R'000
ASSETS			
Non-current assets	**53 452 696**	65 366 652	54 304 599
Property, plant and equipment	**25 258 332**	25 981 781	25 686 739
Right-of-use assets	**1 361 456**	1 016 702	1 172 047
Investment properties	**9 063 349**	10 410 460	9 344 524
Goodwill	**3 952 321**	4 762 677	3 943 166
Investments in associates and joint arrangements	**2 633 108**	2 577 854	2 977 772
Other financial assets	**993 098**	1 240 992	1 036 987
Intangible assets	**9 383 927**	18 673 234	9 424 800
Deferred taxation	**729 882**	581 868	467 886
Other	**77 223**	121 084	250 678
Current assets	**8 425 022**	10 357 034	10 206 306
Inventories	**1 030 123**	1 041 741	1 054 443
Programme rights	**1 049 152**	886 279	845 355
Other financial assets	**1 789**	28 327	37 823
Trade and other receivables	**2 264 543**	2 544 890	2 441 634
Taxation	**353 940**	80 249	142 019
Bank balances and deposits	**3 725 475**	5 775 548	5 685 032
Disposal group assets held for sale	**438 182**	414 375	381 371
Total assets	**62 315 900**	76 138 061	64 892 276
EQUITY AND LIABILITIES			
Equity	**25 356 614**	34 881 318	26 651 453
Equity attributable to equity holders of the parent	**11 782 725**	15 935 094	12 347 962
Non-controlling interest	**13 573 889**	18 946 224	14 303 491
Non-current liabilities	**26 227 245**	21 481 075	25 396 676
Deferred taxation	**5 155 471**	7 808 820	5 035 017
Borrowings	**18 354 956**	11 771 517	18 169 392
Lease liabilities	**1 684 159**	1 279 584	1 424 481
Provisions	**291 035**	207 734	218 324
Other	**741 624**	413 420	549 462
Current liabilities	**10 621 979**	19 619 395	12 738 104
Trade and other payables	**3 080 367**	3 454 973	2 933 215
Current portion of borrowings	**4 798 855**	11 032 226	5 195 377
Taxation	**98 083**	190 191	203 030
Provisions	**209 259**	354 779	311 194
Bank overdrafts	**2 171 950**	4 436 272	3 956 883
Other	**263 465**	150 954	138 405
Disposal group liabilities held for sale	**110 062**	156 273	106 043
Total equity and liabilities	**62 315 900**	76 138 061	64 892 276
Net asset carrying value per share (cents)	**14 570**	19 301	15 269

* *Restated for the reclassification of operating lease equalisation assets totalling R118.010 million and R5.849 million to investment properties and other non-current assets, respectively.*

** *Restated for the reclassification of operating lease equalisation assets totalling R114.802 million and R6.536 million to investment properties and other non-current assets, respectively.*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	% change	**Unaudited 30 September 2020 R'000**	Unaudited 30 September 2019* R'000
Revenue		**3 848 862**	7 229 570
Net gaming win		**1 486 567**	5 069 105
Property rental income		**317 285**	476 962
Income	(55.8%)	**5 652 714**	12 775 637
Expenses		**(5 230 149)**	(9 520 231)
EBITDA	(87.0%)	**422 565**	3 255 406
Depreciation and amortisation		**(824 069)**	(787 544)
Operating (loss)/profit		**(401 504)**	2 467 862
Investment income		**68 852**	99 853
Finance costs		**(987 266)**	(1 072 592)
Share of losses of associates and joint arrangements		**(159 975)**	(171 531)
Investment surplus		**574 512**	1 049
Fair value adjustment on associate on gaining control		**–**	9 163
Asset impairments		**(15 981)**	(14 203)
Fair value adjustments on financial instruments		**16 788**	(10 654)
Impairment of goodwill and investments		**–**	(10 986)
(Loss)/profit before taxation	(169.7%)	**(904 574)**	1 297 961
Taxation		**178 649**	(441 195)
(Loss)/profit for the period from continuing operations		**(725 925)**	856 766
Discontinued operations		**(33 768)**	(87 147)
(Loss)/profit for the period		**(759 693)**	769 619
Attributable to:			
Equity holders of the parent		**(285 560)**	242 192
Non-controlling interest		**(474 133)**	527 427
		(759 693)	769 619

* *Restated for reclassification of discontinued operations.*

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Unaudited 30 September 2020 R'000	Unaudited 30 September 2019 R'000
(Loss)/profit for the period	**(759 693)**	769 619
Other comprehensive (loss)/income net of tax:		
Items that will subsequently be reclassified to profit or loss		
Foreign currency translation differences	**(234 510)**	104 985
Cash flow hedge reserve	**(232 303)**	(21 844)
Share of other comprehensive losses of equity-accounted investments	**(20 106)**	–
Items that will not subsequently be reclassified to profit or loss		
Revaluation of owner-occupied land and buildings on transfer to investment properties	**26 497**	–
Fair value adjustments on equity instruments designated at fair value through other comprehensive income	**(38 078)**	(114 988)
Total comprehensive (loss)/income	**(1 258 193)**	737 772
Attributable to:		
Equity holders of the parent	**(600 318)**	269 269
Non-controlling interest	**(657 875)**	468 503
	(1 258 193)	737 772

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited 30 September 2020 R'000	Unaudited 30 September 2019 R'000
Balance at the beginning of the period	**26 651 453**	35 174 956
Share capital and premium		
Shares repurchased	**–**	(234 479)
Current operations		
Total comprehensive (loss)/income	**(1 258 193)**	737 772
Equity-settled share-based payments	**10 657**	7 977
Acquisition of subsidiaries	**–**	3 663
Disposal of subsidiaries	**–**	4 879
Effects of changes in holding	**(18 476)**	(152 599)
Dividends	**(28 827)**	(660 851)
Balance at the end of the period	**25 356 614**	34 881 318

RECONCILIATION OF HEADLINE EARNINGS

	% change	Unaudited 30 September 2020 Gross R'000	Unaudited 30 September 2020 Net R'000	Unaudited 30 September 2019 Gross R'000	Unaudited 30 September 2019 Net R'000
(Losses)/earnings attributable to equity holders of the parent	(217.9%)		**(285 560)**		242 192
Fair value adjustment on deemed disposal of associate		**–**	**–**	(9 163)	(5 574)
Gains on disposal of plant and equipment		**(4 868)**	**(3 081)**	(11 302)	(6 758)
Impairment of property, plant and equipment		**18 490**	**8 452**	14 203	7 074
Losses from disposal of subsidiaries		**–**	**–**	3 138	1 265
Gains on disposal of associates and joint arrangements		**(355 382)**	**(170 121)**	–	–
Impairment of associates and joint arrangements		**–**	**–**	10 986	5 067
Impairment of intangible assets		**3 572**	**2 514**	–	–
Insurance claims for capital assets		**(3 758)**	**(2 223)**	(4 188)	(2 364)
Gains on termination of leases		**–**	**–**	(532)	(189)
Remeasurements included in equity-accounted losses of associates and joint arrangements		**89 700**	**42 940**	151 048	151 048
Headline (loss)/profit	(203.9%)		**(407 079)**		391 761
Basic (loss)/earnings per share (cents)					
(Loss)/earnings	(222.3%)		**(353.11)**		288.68
Continuing operations			**(319.63)**		378.90
Discontinued operations			**(33.48)**		(90.22)
Headline (loss)/earnings per share (cents)	(207.8%)		**(503.37)**		466.96
Continuing operations			**(470.67)**		556.32
Discontinued operations			**(32.70)**		(89.36)
Weighted average number of shares in issue ('000)			**80 870**		83 896
Actual number of shares in issue at the end of the period (net of treasury shares) ('000)			**80 870**		82 560
Diluted (loss)/earnings per share (cents)					
(Loss)/earnings	(222.6%)		**(353.11)**		288.12
Continuing operations			**(319.63)**		378.16
Discontinued operations			**(33.48)**		(90.04)
Headline (loss)/earnings per share (cents)	(208.0%)		**(503.37)**		466.05
Continuing operations			**(470.67)**		555.24
Discontinued operations			**(32.70)**		(89.19)
Weighted average number of shares in issue ('000)			**80 870**		84 060

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 30 September 2020 R'000	Unaudited 30 September 2019 R'000
Cash flows from operating activities	**(368 745)**	1 031 076
Cash generated by operations	**444 360**	3 492 676
Net finance costs	**(764 951)**	(987 271)
Changes in working capital	**176 215**	(405 849)
Taxation paid	**(195 542)**	(408 065)
Dividends paid	**(28 827)**	(660 415)
Cash flows from investing activities	**548 461**	(1 194 772)
Business combinations and disposals	**–**	26 429
Net investments disposed of/(acquired)	**351 934**	(267 464)
Dividends received	**28 210**	64 419
Loans and receivables repaid	**386 068**	14 166
Intangible assets acquired	**(7 086)**	(27 259)
Investment properties		
– Additions	**(16 250)**	(247 265)
– Disposals	**52 000**	–
Property, plant and equipment		
– Additions	**(260 514)**	(823 946)
– Disposals	**14 099**	66 148
Cash flows from financing activities	**(320 772)**	199 623
Ordinary shares repurchased	**–**	(234 479)
Transactions with non-controlling shareholders	**(20 026)**	(214 639)
Principal paid on lease liabilities	**(19 424)**	(281 386)
Net funding (repaid)/raised	**(281 322)**	930 127
(Decrease)/increase in cash and cash equivalents	**(141 056)**	35 927
Cash and cash equivalents		
At the beginning of the period	**1 740 249**	1 282 652
Foreign exchange differences	**(28 309)**	34 043
At the end of the period	**1 570 884**	1 352 622
Bank balances and deposits	**3 725 475**	5 775 548
Bank overdrafts	**(2 171 950)**	(4 436 272)
Cash in disposal groups held for sale	**17 359**	13 346
Cash and cash equivalents	**1 570 884**	1 352 622

SEGMENTAL ANALYSIS

	Revenue Unaudited six months ended 30 September		Net gaming win Unaudited six months ended 30 September	
	2020 **R'000**	2019* R'000	**2020** **R'000**	2019* R'000
Media and broadcasting	**1 054 416**	1 220 651	**–**	–
Gaming	**78 886**	846 782	**1 486 567**	5 069 105
Hotels	**306 584**	1 917 306	**–**	–
Transport	**749 200**	1 022 544	**–**	–
Properties	**62 933**	151 628	**–**	–
Coal mining	**625 034**	690 580	**–**	–
Branded products and manufacturing	**960 897**	1 376 198	**–**	–
Other	**10 912**	3 881	**–**	–
Total	**3 848 862**	7 229 570	**1 486 567**	5 069 105

	Property rental income Unaudited six months ended 30 September		EBITDA Unaudited six months ended 30 September	
	2020 **R'000**	2019* R'000	**2020** **R'000**	2019* R'000
Media and broadcasting	**8 509**	10 706	**75 852**	229 533
Gaming	**41 410**	72 870	**199 871**	1 985 164
Hotels	**27 151**	136 903	**(212 693)**	470 928
Transport	**–**	–	**164 425**	247 625
Properties	**160 474**	184 169	**103 942**	164 237
Coal mining	**–**	–	**103 634**	134 085
Branded products and manufacturing	**74 021**	67 012	**75 803**	112 015
Other	**5 720**	5 302	**(88 269)**	(88 181)
Total	**317 285**	476 962	**422 565**	3 255 406

	Profit/(loss) before tax Unaudited six months ended 30 September		Headline earnings/(loss) Unaudited six months ended 30 September	
	2020 **R'000**	2019* R'000	**2020** **R'000**	2019 R'000
Media and broadcasting	**33 493**	171 095	**14 376**	57 319
Gaming	**(810 465)**	1 009 161	**(281 830)**	362 208
Hotels	**(323 347)**	138 648	**(205 583)**	16 682
Transport	**102 559**	188 463	**58 769**	97 743
Properties	**27 468**	75 253	**19 759**	57 366
Coal mining	**86 352**	119 795	**42 795**	34 355
Branded products and manufacturing	**4 193**	15 648	**4 864**	(8 283)
Oil and gas prospecting	**(19 733)**	(167 825)	**(19 733)**	(16 777)
Palladium prospecting	**(25 166)**	(23 360)	**(25 166)**	(23 360)
Other	**20 072**	(228 917)	**(15 330)**	(185 492)
Total	**(904 574)**	1 297 961	**(407 079)**	391 761

* *Restated*

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
2020				
Media and broadcasting	**1 054 416**	**–**	**–**	**1 054 416**
Gaming	**78 886**	**–**	**–**	**78 886**
Hotels	**267 024**	**39 560**	**–**	**306 584**
Transport	**749 200**	**–**	**–**	**749 200**
Properties	**62 933**	**–**	**–**	**62 933**
Coal mining	**625 034**	**–**	**–**	**625 034**
Branded products and manufacturing	**893 948**	**24 867**	**42 082**	**960 897**
Other	**10 912**	**–**	**–**	**10 912**
Total	**3 742 353**	**64 427**	**42 082**	**3 848 862**
2019*				
Media and broadcasting	1 220 651	–	–	1 220 651
Gaming	846 782	–	–	846 782
Hotels	1 615 716	301 590	–	1 917 306
Transport	1 022 544	–	–	1 022 544
Properties	151 628	–	–	151 628
Coal mining	690 580	–	–	690 580
Branded products and manufacturing	1 298 870	59 270	18 058	1 376 198
Other	3 881	–	–	3 881
Total	6 850 652	360 860	18 058	7 229 570

* *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
2020			
Sale of goods			
Media and broadcasting	**–**	**70 667**	**70 667**
Transport	**–**	**101**	**101**
Coal mining	**–**	**625 034**	**625 034**
Branded products and manufacturing	**17 975**	**942 922**	**960 897**
Provision of services			
Media and broadcasting	**964 482**	**19 267**	**983 749**
Gaming	**58 435**	**20 451**	**78 886**
Hotels	**260 044**	**46 540**	**306 584**
Transport	**693 675**	**55 424**	**749 099**
Properties	**59 812**	**3 121**	**62 933**
Other	**10 912**	**–**	**10 912**
Total	**2 065 335**	**1 783 527**	**3 848 862**
2019*			
Sale of goods			
Transport	–	154	154
Coal mining	–	690 580	690 580
Branded products and manufacturing	4 032	1 372 166	1 376 198
Provision of services			
Media and broadcasting	1 206 948	13 703	1 220 651
Gaming	516 373	330 409	846 782
Hotels	1 416 429	500 877	1 917 306
Transport	845 295	177 095	1 022 390
Properties	56 537	95 091	151 628
Other	3 881	–	3 881
Total	4 049 495	3 180 075	7 229 570

* *Restated*

BASIS OF PREPARATION AND ACCOUNTING POLICIES

The results for the six months ended 30 September 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 neither been audited nor 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 2020, except as follows:

Amendment to IFRS 16 Leases

The International Accounting Standards Board issued amendments to IFRS 16 to simplify how lessees account for rent concessions. These amendments are effective for annual reporting periods beginning on or after 1 June 2020, with earlier application permitted. The group early adopted the amendments with effect from 1 April 2020 without any adjustment to opening retained earnings at this date.

As a practical expedient, a lessee may elect not to assess whether a rent concession that meets specific conditions is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the payment, occurs. These payments must be disclosed separately from the effect of other variable lease payments included in profit or loss. No such relief is provided for lessors. Lessors are required to assess whether rent concessions are lease modifications and if so, account for them accordingly.

The practical expedient in the amended standard applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The group applied the practical expedient to all of its leases where it is a lessee and lease concessions were granted to the group. This had the effect of reducing lease liabilities as follows:

	R'million
Land and building rentals	76
Gaming equipment rentals	6

GOING CONCERN AND IMPACT OF COVID-19 PANDEMIC

The national lockdown on 27 March 2020 and further COVID-19-related restrictive measures have 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, these operations were still impacted significantly by the events during the first half of the current financial year. The group's gaming and hotel operations were unable to trade for extended periods of time with current trade still impacted by government-enforced restrictions. The group's properties division has been impacted by the reduced ability of its tenant base to comply with its rent obligations due to varied restrictions affecting their trade.

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 to the following measures:

- the waiver of hotel operations' covenant requirements for the measurement periods ending 30 September 2020 and 31 March 2021, the latter waiver being subject to revised interim covenant measurements;
- the waiver of gaming operations' covenant requirements for the measurement period ending 30 September 2020 and the capitalisation of bank funding interest, repayable by the earlier of 31 May 2023 and facility maturity date;
- the granting of additional facility headroom 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, 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 to the extent reasonably possible. 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 year.

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

FAIR VALUE MEASUREMENT

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 R848 million at 30 September 2020, a R50 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 fair value loss is significantly the result 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 30 September 2020 are as follows:

- expected gaming win declines by 10%, then increases by 11.1% the next year; thereafter 5.2% and 5.5% over the following years;
- operating expenditure declines by 10%, then increases by 11.1% the next year; thereafter 5.2% and 5.5% over the following years;
- risk-adjusted discount rate of 14.3% post-tax; and
- long-term growth rate of 5%.

IMPAIRMENTS

Goodwill and casino licences

Casino licences are allocated and monitored on a casino precinct basis as these are the cash-generating units ("CGUs") to which they relate. Goodwill relating to the group's gaming and hotel operations have been allocated to each of the two respective groups as the CGUs to which it relates. The outbreak of COVID-19 in the prior financial year has significantly affected the South African economy and the gaming and hospitality industry. The closure of all the group's casino precincts and substantial temporary curtailment of its hotel operations during the lockdown, together with the uncertain economic outlook until the properties are fully operational again, has had a material adverse effect on the group's gaming and hotel operations and ability to generate cash flows in the short to medium term. These factors were considered in determining whether indicators of impairment exist in respect of casino licences, most of which have indefinite useful lives, as well as goodwill.

The recoverable amount of a CGU is determined based on the higher of the fair value less cost of disposal and value-in-use. These calculations use management-approved pre-tax cash flow projections based on five-year forecasts.

Following the impairment of a number of casino licences, as well as goodwill relating to the group's hotel operations, in the previous financial year, the latest cash flow projections and significant unobservable inputs as at the reporting date were assessed against those used for the year ended 31 March 2020. No indicators of further impairment were observed and no further impairments recognised.

Property, plant and equipment

Following the impairment of certain land and buildings of the group's hotel operations in the previous financial year as a consequence of the anticipated impact of COVID-19-related trade restrictions, the reasonability of cash flow forecasts and other unobservable inputs applied at that time was assessed at the current reporting date. No indicators of further impairment were observed and no further impairments recognised.

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 comparative periods. Disposal group assets of R25 million and liabilities of R14 million relate to these operations.

Branded products and manufacturing

The board of Deneb Investments has resolved to dispose of its interests in Frame Knitting Manufacturers and Brand ID. The disposal process remains ongoing in respect of these operations. The results of these divisions are included in discontinued operations in the statement of profit or loss in the current and prior comparative periods and the assets of R58 million and liabilities of R25 million classified as disposal groups in the current period.

Coal mining

HCI Coal has contracted to dispose of the Mbali Colliery. The disposal remains subject to the fulfilment of further conditions precedent. The results of these operations have been reclassified to discontinued operations in the current and prior comparative periods and assets of R139 million and liabilities of R71 million included in disposal groups in the current period.

Properties

A process to dispose of an office building in Umhlanga, held by the group as an investment property, was initiated in the prior financial year. The building, with a carrying value of R115 million, has been classified as held for sale in the statement of financial position. Further investment properties with a carrying value of R33 million await sale.

Other

La Concorde Holdings has contracted to dispose of investment properties with a carrying value of R73 million, which have been classified as disposal groups in the current period. The disposal became effective subsequent to the current reporting date.

The results of discontinued operations were as follows:

	Media and broadcasting non-core operations R'million	Branded products and manufacturing R'million	Coal mining R'million
(Loss)/profit after tax before disposal gains and losses	(15)	1	(21)
(Loss)/gain on disposal	–	–	–

RESULTS

GROUP STATEMENT OF PROFIT OR LOSS AND SEGMENTAL ANALYSIS

Income decreased by 56% to R5 653 million
EBITDA decreased by 87% to R423 million
Loss before tax R905 million
Headline loss R407 million
Headline loss per share 503 cents

Media and broadcasting

Advertising revenue was severely impacted by COVID-19-related trade restrictions and contracted by 20%, despite an increase in prime time market share from 24% to 26%, the increase being significantly attributable to the multi-channel operations. South African television advertising spend has shown a decrease in excess of 30% compared to the prior year and has only slightly recovered in recent months with decreases of less than 20% when compared to the prior year. The group's licence fee revenue increased by 5%, however, property and facility revenue decreased by 57%. Active set top boxes have increased from 1 992 844 to 2 154 948 at this period end. EBITDA decreased by 67%, the reduction in revenue somewhat mitigated by stable programming costs and a decrease of 10% in employee costs and 43% in marketing costs. Profit before tax decreased by R138 million, the aforementioned EBITDA decrease reduced slightly by a reversal of contingent consideration in respect of a previous business acquisition.

Gaming

Only negligible gaming revenue and net gaming win were earned during the months of April to June 2020, with improving activity recorded in the period since July. The curfew and remaining capacity restrictions imposed by government still serve to limit the recovery of gaming operations at the time of this report, however, combined revenue and net gaming win in excess of R600 million was earned in respect of the month ending September 2020. Casino revenue and net gaming win combined decreased by 75%, that of Vukani by 65% and that of Galaxy Bingo's operations by 75%. EBITDA decreased by approximately 90% over the prior comparative period following the deterioration in income earned, despite substantial cost containment measures implemented. Losses before tax do not include any significant non-recurring items.

Hotels

Hotels revenue decreased by 84% and rental income by 80%, following reduced room sales and rental relief granted to lessees, respectively. The number of rooms sold decreased by 90% compared to the prior comparative period, with average occupancy levels for available rooms 21.6% in the current period, compared to 59.1% in the prior comparative period. Available rooms have been reduced by 74% as a result of the decrease in demand. Losses before tax include a profit on disposal of R355 million in respect of the group's 50% investment in United Resorts and Hotels Limited (owner of the Maia Resort) and an effective R90 million downward fair value adjustment on investment properties reported by an associate, International Hotel Properties Limited. Headline earnings was adjusted for both these items.

Transport

Transport revenue decreased by 27%. Golden Arrow Bus Service ("GABS") was able to conclude an agreement with the Provincial Contracting Authority to pay a standing kilometre rate where scheduled operations were unduly disrupted due to capacity limitations and travel time restrictions imposed by the lockdown regulations. With the easing of restrictions accompanying each level of lockdown, the number of GABS passengers showed a gradual increase ranging from a low of 10% with level 5 to close to 60% with level 1. EBITDA decreased by 34% after a reduction in operating costs by 25%. Profit before tax decreased by 46%, a non-recurring fair value adjustment on change of control of an associate of R9 million having been recognised in the prior comparative period.

Properties

Properties' reduction in revenue has significantly been the result of the curtailment of the Gallagher Estate's convention and conferencing operations since the implementation of COVID-19-related restrictions. Rental income decreased by 13% due to the granting of rental relief, the developments most affected being The Point, Kalahari Village Mall and Gallagher Estate. Additional rental income of R6 million was earned by Solly Sachs House. EBITDA decreased by R60 million, the result of the rental relief granted throughout the portfolio and lost revenue at Gallagher Estate's convention and conferencing business. Profit before tax was not affected by significant non-recurring items. Finance costs decreased by R8 million in the current period due to lower interest rates. Headline earnings decreased in line with profit before tax.

Coal mining

Following the conclusion of an agreement to sell the Mbali Colliery, its results have been reclassified to discontinued operations. Revenue decreased by 9% at the Palesa Colliery, consisting of a 16% decrease in coal revenue and 6% increase in transport revenue. Whilst coal production was identified as an essential service throughout COVID-19-related restrictions, sales volumes at Palesa decreased by 247 000 tons (17%) as a result of the reduction of coal quantities accepted by Eskom. EBITDA decreased by 23% as a result of the decrease in sales volumes at the Palesa colliery, the effect of which could not be mitigated by the increase in transport revenue, which contains a comparatively lower profit margin. Profit before tax decreased in line with EBITDA. Losses after tax at the Mbali Colliery reduced by R28 million, resulting in an increase in consolidated headline profit of 25%.

Branded products and manufacturing

Revenue in respect of branded products and manufacturing decreased by 30% and property rental income increased by 10%, with both industrial product manufacturing and branded product distribution revenue severely impacted by COVID-19-related restrictions. EBITDA in respect of non-property operations decreased by 80%, though remained positive, while property rental income gains resulted in increased EBITDA profits. The significant decrease in EBITDA of non-property-related operations was off-set somewhat by a R22 million reduction in finance costs following lower interest rates. The improvement in headline earnings was significantly a result of the disposal of certain discontinued operations for which losses were incurred in the prior comparative period.

Oil and gas prospecting

Equity losses in respect of Impact Oil and Gas ("IOG") decreased by 88%, significantly a result of an effective R151 million impairment loss recognised in the prior comparative period not recurring. The impairment loss was in respect of the relinquishment of an exploration licence in Gabon.

Palladium prospecting

Equity losses of R25 million were recognised in the current period and contained no significant headline earnings-adjusting items.

Other

EBITDA losses were on par with the prior comparative period, with no significant non-recurring items. Profit before tax improved by R249 million compared to the prior comparative period. Included in profit before tax is R19 million in interest and a R219 million gain on settlement of arbitration proceedings in respect of the finance arrangements with Ithuba Holdings, the current National Lottery operator. Head office finance costs increased from R116 million to R131 million. Equity losses in respect of Karoshoek reduced by R5 million to R11 million, and combined losses in respect of the HCI Foundation and the group's internal audit function by R18 million to R26 million. Included in the current year's headline loss is R131 million head office finance costs, the aforementioned losses from Karoshoek and the after tax amounts 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 Holdings.

Notable items on the consolidated statement of profit or loss include:

Investment income decreased due to lower cash levels throughout the group.

Finance costs decreased by R85 million, R71 million of the reduction recorded by gaming operations and R22 million by branded products and manufacturing. As noted above, head office finance costs increased, as a result of the enforcement of default interest rates by funders following certain covenant breaches.

Losses from associates and joint arrangements includes R8 million and R9 million profit from BSG Africa and The Kings property development, respectively. Equity losses of R109 million were recognised in respect of International Hotel Properties Limited (which included an effective R90 million downward fair value adjustment), R20 million in losses in respect of IOG, R25 million in respect of Platinum Group Metals and R11 million in respect of Karoshoek.

An investment surplus of R219 million relates to the gain on settlement of arbitration proceedings with Ithuba Holdings. R355 million was recognised by the group's hotel operations on the disposal of its interest in United Resorts and Hotels Limited.

Property, plant and equipment of R16 million in aggregate was impaired by various operations across the group.

Headline earnings decreased by 204%. Headline earnings per share decreased by 208%. The weighted average number of shares in issue in the prior comparative period of 83 896 000 was reduced to 80 870 000 in the current period due to the general repurchase of shares during the prior financial year, which resulted in the discrepancy between the gross and per share earnings decrease.

GROUP STATEMENT OF FINANCIAL POSITION AND CASH FLOW

Group non-current borrowings at 30 September 2020 comprise central investment property-related borrowings of R1 946 million (March 2020: R1 965 million), borrowings in Tsogo Sun Gaming and Tsogo Sun Hotels of R12 012 million and R3 386 million, respectively (March 2020: R11 200 million and R3 974 million), 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 31 March 2020, borrowings of R2 355 million have been classified as current at that reporting date and as at 30 September 2020. A rectification arrangement in respect of the breached covenants was concluded with funders subsequent to the current reporting date. Also included in the current portion of borrowings is R1 054 million in central borrowings, which has been settled subsequent to the reporting date in accordance with a transaction concluded with the Southern African Clothing and Textile Workers' Union ("Sactwu"), whereby the group purchased Sactwu's shares and claims in a co-owned holding company that held its effective interest in eMedia Holdings Limited. R151 million (March 2020: R530 million) in current borrowings relates to Tsogo Sun Gaming. Bank overdraft facilities include R524 million in Tsogo Sun Gaming, R735 million in Tsogo Sun Hotels, R728 million at head office and R155 million in Deneb (March 2020: R2 559 million, R559 million, R729 million and R109 million, respectively). R400 million in head office overdraft facilities were repaid subsequent to reporting date.

Included in cash flows from investing activities is investments in associates of R116 million, of which R11 million relates to further investment in Platinum Group Metals and R100 million to IOG. R400 million was received from Ithuba Holdings and R468 million on the disposal of the group's interest in United Resorts and Hotels Limited. R261 million was invested in property, plant and equipment, of which R74 million by Tsogo Sun Gaming and R106 million by eMedia. Net funding of R300 million was raised at Tsogo Sun Gaming and R511 million and R88 million repaid at Tsogo Sun Hotels and HPL&R, respectively.

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.

EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the reporting date, IOG completed a transaction with Africa Energy Corp. ("Africa Energy"), a company listed on the TSX Venture Exchange in Toronto and the Nasdaq First North Growth Market in Stockholm, for the sale of its indirect interest in the Block 11B/12B exploration right, offshore South Africa (including the Brulpadda and Luiperd wells). At completion, Africa Energy issued 509 092 771 common shares to IOG, following which IOG holds 36.5% of the common shares in Africa Energy.

On 30 September 2020 the boards of directors of Hospitality Property Fund ("HPF") and Tsogo Sun Hotels approved a transaction by which Tsogo Sun Hotels has offered to acquire all of the ordinary shares in the issued share capital of HPF, other than those shares already owned by Tsogo Sun Hotels, its subsidiaries and treasury shares ("the Offer"). An application will be made for the delisting of all HPF shares from the main board of the Johannesburg Stock Exchange ("JSE"). The consideration in respect of the Offer will be settled on the same terms as the share-for-share transactions concluded with various HPF shareholders between July 2020 and August 2020, that is, at a ratio of 1.77 Tsogo Sun Hotels shares for every one HPF share acquired by Tsogo Sun Hotels. A general meeting of Tsogo Sun Hotels and HPF shareholders will be held on Thursday, 19 November 2020 to consider and, if deemed fit, pass the resolutions required to approve and implement the Offer.

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.

CHANGES IN DIRECTORATE

Mr MSI Gani, an independent non-executive director, resigned from the board of directors effective 7 September 2020. Mr MH Ahmed was appointed as an independent non-executive director effective 7 September 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 an interim dividend.

For and on behalf of the board of directors

JA Copelyn
Chief Executive Officer

JR Nicolella
Financial Director

Cape Town
19 November 2020

www.hci.co.za

Hosken Consolidated Investments Limited

2020