TSOGO SUN
HOTELS

Tsogo Sun Hotels Limited
(previously known as Southern Sun Hotels Proprietary Limited)
(Incorporated in the Republic of South Africa)
(Registration number 2002/006356/06)
Share code: TGO ISIN: ZAE000272522
('Tsogo Sun Hotels' or 'the company' or 'the group')

Condensed unaudited consolidated interim financial results for the six months ended 30 September 2019

Commentary

REVIEW OF OPERATIONS

This marks the group's first set of financial results subsequent to the company's unbundling from Tsogo Sun Gaming Limited ('Tsogo Sun Gaming') and its listing on the main board of the Johannesburg Stock Exchange Limited ('JSE') on 12 June 2019. Trading during the first half of the financial year was impacted by the depressed macro-economic environment both locally and in our African operations, with demand by the transient traveller showing little sign of recovery. The difficult trading conditions were exacerbated by the separation of the Easter weekend from the school holidays in April, which had a negative impact on leisure and corporate travel. Government restricted travel and conferencing spend in the lead-up to the national elections and the proclamation of election day resulted in consecutive mid-week public holidays during May. The anticipated improvement in sentiment following the election outcome has unfortunately not yet translated into corporate and consumer confidence, which remain subdued. Recent positive announcements with regard to certain onerous visa requirements for international visitors with families are welcomed. Trading in the group's offshore division was equally depressed due to declining corporate and leisure activity in Maputo and Seychelles respectively, government austerity measures in Tanzania, a reduction in South African travel to Nigeria following the xenophobic attacks as well as a significant retraction in business confidence in Lusaka following proposed amendments to tax legislation. In this low-revenue growth environment, cost control has remained a significant focus.

Notable steps towards implementing the group's strategy to expand and secure its portfolio of managed and owned hotel properties include:

- The acquisition of the 240 room Southern Sun Pretoria hotel by Hospitality Property Fund Limited ('HPF') for R200 million. Tsogo Sun Hotels continues to manage and lease the hotel under the triple net fixed lease ceded to HPF in terms of the transaction.
- The extension of the group's tenure over the three Sandton hotels, being the InterContinental Sandton Towers, Sandton Sun and Garden Court Sandton City, which together total 1 001 rooms and make up 5% of the group's total rooms portfolio. The extensions will take the form of fixed and variable leases similar to those between Tsogo Sun Hotels and HPF where 99% of hotel earnings after the deduction of management fees payable to the group, accrues to the hotel owners as rent. The leases will be for a period of 20 years and are subject to customary performance clauses.

- The group invested R202 million in the period on replacement capex group-wide, including major hotel refurbishments at the Westin for R46 million and the Southern Sun Ridgeway in Lusaka for R59 million ensuring our assets remain best in class.

Total income for the six months of R2.1 billion ended 2% above the prior period with a 3% growth in hotel rooms revenue and a 4% growth in food and beverage revenue offset by a 2% reduction in other income.

Earnings before interest, income tax, depreciation, amortisation, property rentals, long-term incentives and exceptional items ('Ebitdar') of R559 million ended 3% down on the prior period for the six months. The overall group Ebitdar margin of 27.0% is 1.5 percentage points ('pp') down on the prior period.

The underlying operations of the group remain highly geared towards the South African transient traveller and the corporate market. Activity from corporate and leisure groups continues to be suppressed, which has a negative impact on conference-associated demand, particularly at the Sandton Convention Centre and the Birchwood Hotel & OR Tambo Conference Centre ('Birchwood Hotel') both of which were negatively impacted by the disruptions caused by the national elections in the first quarter. However, the high level of operational gearing still presents significant growth potential to the group should these sectors of the South African economy improve.

Trading for the group's South African hotels for the six months recorded system-wide revenue per available room ('RevPar') up 3% on the prior period due to a 2% increase in average room rates to R1 067 as well as a 0.7pp increase in occupancies on the prior period to 62.7% (2018: 62.0%).

The management activities of the South African hotels net of group corporate office costs (including HPF central costs) generated Ebitdar of R64 million for the six months, a decrease of 10% on the prior period. This performance results from a R7 million decrease in management fee income due to the disappointing first quarter performance from the Sandton hotels and Convention Centre as well as the Tsogo Sun Gaming hotels. The segment's Ebitdar margin decreased by 4.6pp from the prior period to 50.4% (2018: 55.0%).

Rental income from the 12 externally managed hotel properties owned by HPF of R123 million was flat on the prior period. This is largely due to the performance of the Birchwood Hotel which saw rental income decline by 36.8% for the six months compared to the prior period, offset by a pleasing performance from the Westin which benefited from international group and association business relating to the World Economic Forum held in Cape Town.

Overall, revenue for the South African hotel portfolio owned by the group was 4% above the prior period at R1.6 billion assisted by the performance of the Cape region which benefited from government and association business from the State of the Nation Address in June as well as international group and association business relating to the World Economic Forum. The KwaZulu-Natal, Inland and Other segments have struggled in the first half of the year largely due to a lack of government and corporate business as well as a decline in groups and conferencing due to a lack of large events at the Durban International Convention Centre. Despite strict cost control, above inflationary increases in administered costs, including property rates and utilities has resulted in the Ebitdar for the internally managed segment decreasing by 2% on the prior period to R302 million at a margin of 18.9% (2018: 20.0%).

The offshore division of hotels maintained total revenue of R305 million, flat on the prior period. In US Dollar terms, revenue for the six months declined by 10% compared to the period, offset by the favourable impact of the weakening of the Rand against the US Dollar. Ebitdar (pre-foreign exchange gains/losses) declined by 2% to R69 million. Foreign exchange gains of R0.5 million (2018: R3 million) were incurred on the translation of offshore monetary items, principally between local country currencies and the US Dollar.

Combined South African and offshore hotel trading statistics, excluding hotels managed on behalf of third-party owners and those managed by third parties in HPF, are as follows:

For the period ended 30 September	**2019**	2018
Occupancy (%)	**59.1**	59.1
Average room rate (R)	**1 036**	1 013
RevPar (R)	**613**	599
Rooms available ('000)	**2 126**	2 124
Rooms sold ('000)	**1 257**	1 255
Rooms revenue (Rm)	**1 303**	1 271

PRO FORMA FINANCIAL INFORMATION

In order to provide shareholders with meaningful, like-for-like analyses of the group's performance for the six-month period, commentary on the consolidated results of operations after reported Ebitdar will be made against the *pro forma* financial information for the six-month period ended 30 September 2018.

The *pro forma* financial information presented below has been prepared for illustrative purposes only and because of its nature may not fairly present the group's consolidated results of operations. *Pro forma* financial information is the responsibility of the directors of Tsogo Sun Hotels. The *pro forma* income statement has been prepared on the assumption that the listing and unbundling occurred on 1 April 2018 and consequently that the group's interest-bearing treasury loan was settled in full as at that date and that the conversion to the equity-settled share appreciation plan was effective from the same date. The *pro forma* financial information has been prepared using the accounting policies of the group which comply with IFRS and are consistent with those applied in the historical financial information set out in the company's pre-listing statement.

The *pro forma* financial information has not been audited or reviewed by the company's auditors.

For the period ended 30 September	% Change on *pro forma*	**2019 Unaudited Rm**	2018 *Pro forma* Rm	2018 Unaudited Rm
Ebitdar	(3)	**559**	577	577
Exceptional losses, net of gains				
Headline adjustments		**(1)**	(119)	(119)
Loss on disposal of property, plant and equipment		**(1)**	–	–
Fair value adjustment on investment properties		**–**	(119)	(119)
Other adjustments		**(23)**	(1)	(1)
Fair value adjustments on interest rate swaps		**–**	23	23
Pre-opening costs		**–**	(1)	(1)
Restructuring costs (including termination benefits)		**(21)**	(6)	(6)
Transaction costs		**(2)**	(17)	(17)
Ebitdar post exceptional items	17	**535**	457	457
Property and equipment rentals		**(106)**	(104)	(104)
Property and equipment rentals – IFRS 16		**71**	–	–
Amortisation and depreciation		**(151)**	(147)	(147)
Amortisation and depreciation – IFRS 16		**(22)**	–	–
Long-term incentive (expense)/credit		**(7)**	(7)	9
Operating profit		**320**	199	215
Finance income		**15**	14	14
Finance costs		**(145)**	(126)	(250)
Finance costs – IFRS 16		**(49)**	–	–
Share of profit of associates and joint ventures		**21**	21	21
Profit before income tax	50	**162**	108	–
Income tax expense		**(38)**	(37)	(7)
Profit/(loss) for the period		**124**	71	(7)
Profit attributable to:				
Equity holders of the company		**54**	40	(38)
Non-controlling interests		**70**	31	31
		124	71	(7)

For the period ended 30 September	% Change on *pro forma*	**2019 Unaudited Rm**	2018 *Pro forma* Rm	2018 Unaudited Rm
Reconciliation of earnings attributable to equity holders of the company to headline earnings and adjusted headline earnings				
Profit/(loss) attributable to equity holders of the company:	35	**54**	40	(38)
Loss on disposal of plant and equipment		**1**	–	–
Fair value adjustment on investment properties		**–**	119	119
NCI effects of adjustments		**–**	(49)	(49)
Headline earnings	(50)	**55**	110	32
Fair value adjustment on interest rate swaps		**–**	(23)	(23)
Pre-opening costs		**–**	1	1
Restructuring costs (including termination benefits)		**21**	6	6
Transaction costs		**2**	17	17
Total tax effects of other exceptional items		**(6)**	(2)	(2)
Total NCI effects of other exceptional items		**–**	2	2
Share of associates' exceptional items (net)		**1**	–	–
Adjusted headline earnings	(34)	**73**	111	33
Number of shares in issue (million)		**1 061**	1 061	
Weighted average number of shares in issue (million)		**1 061**	1 061	
Basic and diluted earnings per share (cents)	34	**5.1**	3.8	
Basic and diluted headline earnings per share (cents)	(50)	**5.2**	10.4	
Basic and diluted adjusted headline earnings per share (cents)	(34)	**6.9**	10.5	

Property and equipment rentals (excluding IFRS 16 adjustments) at R106 million are 2% up on the prior period. Similarly, amortisation and depreciation (excluding IFRS 16 adjustments) at R151 million is 3% up on the prior period due mainly to the capital spend during the current six-month period. The net impact of IFRS 16 on the group's income statement is nil, with the majority of the adjustment relating to the leases over the SunSquare and StayEasy City Bowl and the Garden Court Marine Parade hotels.

The long-term incentive expense in the income statement on the equity-settled incentive scheme of R7 million is flat on the prior period *pro forma* charge of R7 million. As set out in the pre-listing statement, hotel employees who participated in the Tsogo Sun Group Long-Term Incentive Scheme ('Tsogo Sun LTIP') were given the option to: (a) accelerate the vesting of their notional shares held under the Tsogo Sun LTIP and receive settlement in cash or (b) to elect to convert their notional shares held under the Tsogo Sun LTIP to share appreciation rights ('SARs') administered in terms of the equity-settled Tsogo Sun Hotels SAR Plan ('SAR plan'). The conversion calculation was done on a basis which ensured that participants received SARs under the SAR plan that equated to the same fair value of their notional shares previously held under the Tsogo Sun LTIP on the conversion date (12 June 2019). The conversion was completed on 12 August 2019 and will ensure that hotel employees are incentivised based on the performance of the company's share price moving forward and will consequently, align their interests more closely with those of the company's shareholders.

A Black-Scholes valuation model was applied in determining the fair value of the SARs to be issued under the SAR plan and the valuation assumptions and inputs to this model are set out below:

Spot price on 12 June 2019	R4.00
Dividend yield	4.7%
Share price volatility	24% – 28%
Risk-free rate	8.365%

The long-term incentive expense relating to the SAR plan will continue over the SAR vesting periods according to the terms of the SAR plan rules. The long-term incentive expense will increase by new grants made to employees and decrease by employee forfeitures.

Exceptional losses for the six months of R24 million relate mainly to termination costs incurred following the restructure of the group's central office. Exceptional losses for the prior period of R120 million relate to fair value losses on the revaluation of investment properties of R119 million related to the externally managed hotels in HPF, transaction costs of R17 million, restructure costs of R6 million and pre-opening costs of R1 million, offset by interest rate swap fair value adjustments of R23 million.

Net finance costs (excluding IFRS 16 adjustments) of R130 million are R18 million above the prior period *pro forma* net finance costs of R112 million due to the increase in debt to fund replacement capex and major hotel refurbishments in the first half of the year.

The share of profit of associates and joint ventures of R21 million remained flat on the prior period mainly due to earnings from the group's UK hotel investments.

The effective tax rate for the six months of 27.0% (2018 *pro forma*: 43.0%) is impacted by the offshore tax rate differentials and the pre-tax profits attributable to the HPF non-controlling interests due to its real estate investment trust ('REIT') tax status. The effective tax rate for the six months in the prior *pro forma* period was impacted by the non-deductibility of the fair value adjustment in HPF due to its REIT status.

Profit attributable to non-controlling interests of R70 million is R39 million higher than the prior *pro forma* period mainly due to the share of the R119 million fair value loss on investment property in the prior *pro forma* period in HPF.

Group adjusted headline earnings for the six months at R73 million ended 34% down on the prior *pro forma* period. The adjustments to the prior *pro forma* period include the reversal of the post-tax and non-controlling interest impacts of the exceptional losses and gains noted above. The number of shares in issue remained unchanged on the prior comparative *pro forma* period and the resultant adjusted headline earnings per share is 34% down on the prior *pro forma* period at 6.9 cents.

Cash generated from operations for the period of R231 million increased from R82 million in the prior period due mainly to the finance costs on the treasury loan with Tsogo Sun Gaming of R124 million incurred in the first half of 2018. Excluding the finance costs on the treasury loan, cash generated from operations would have increased by 12% from R206 million. Cash flows utilised for investment activities of R382 million consisted mainly of maintenance capital expenditure and the acquisition of Southern Sun Pretoria as described above.

Interest-bearing debt net of cash at 30 September 2019 totalled R3.3 billion, which is R313 million above the 31 March 2018 balance of R3.0 billion, with R159 million paid in dividends to non-controlling interests in HPF in addition to the spend on investment activities during the period.

PROSPECTS

Given the weak state of the South African economy and many of the commodity-focused countries in which the group operates, trading is expected to remain under pressure. Growth will depend on how these economies perform going forward, including the impact of changes in commodity prices, and the level of policy certainty that the government is able to achieve. However, the cyclical nature of the business means that around a quarter of total adjusted earnings for any particular year is generated during the winter months in the first half of the year with trading during the summer months producing the balance. The group continues to pursue opportunities to expand its hotel property portfolio through potential project funding structures or joint venture partnerships in order to minimise the upfront capital investment requirements.

DIVIDEND

As outlined in the pre-listing statement, the group intends to apply cash resources generated during the initial 15 months post the listing towards the settlement of the offshore division's Dollar denominated interest-bearing debt. Accordingly, the board of directors has not declared an interim cash dividend for the six months ended 30 September 2019.

SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial period, not otherwise dealt with within the financial statements, that would affect the operations or results of the group significantly.

CHANGE IN DIRECTORATE

As announced on SENS on 16 August 2019, the board has appointed Ms CC September as an independent non-executive director of Tsogo Sun Hotels with effect from 15 August 2019. Tsogo Sun Hotels welcomes Ms September to the board.

Mr R Nicolella has tendered his resignation from the audit and risk committee with effect from 15 August 2019. Mr Nicolella will continue to attend audit and risk committee meetings as an invitee.

Mr Nicolella has tendered his resignation from the social and ethics committee with effect from 11 November 2019 and will be replaced by Ms CC September as a committee member with effect from the same date.

PRESENTATION

Shareholders are advised that a presentation to various analysts and investors which provides additional analysis and information will be available on the group's website at **https://www.tsogosun.com/investors/results-presentations**.

M von Aulock
Chief Executive Officer

L McDonald
Chief Financial Officer

21 November 2019

1 BASIS OF PREPARATION

The condensed unaudited consolidated interim financial statements for the six months ended 30 September 2019 have been prepared in accordance with International Financial Reporting Standards ('IFRS'), IAS 34 *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council ('FRSC'), the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. Chief Financial Officer, L McDonald CA(SA), supervised the preparation of these condensed consolidated interim financial statements. The accounting policies are consistent with IFRS as well as those applied in the pre-listing statement as at 31 March 2019 other than as described in note 2. The condensed consolidated interim financial statements should be read in conjunction with the pre-listing statement for the year ended 31 March 2019, which have been prepared in accordance with IFRS. This interim report, together with any forward looking information contained in this report, has not been audited or reviewed by the company's auditors.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

2.1 New and amended standards adopted by the group

The group adopted all the new, revised or amended accounting pronouncements as issued by the IASB which were effective for the group from 1 April 2019, the significant accounting pronouncement being IFRS 16 *Leases*.

The adoption of IFRS 16 was applied retrospectively without restating comparative figures. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019 as an adjustment to the opening balance of retained earnings at the date of initial application. The net impact on retained earnings at 1 April 2019 was a decrease of R69 million and is discussed below. No other pronouncements had any material impact on the group.

2.2 IFRS 16 *Leases*

2.2.1 Where the group is a lessee

Adjustments recognised on adoption of IFRS 16

The standard affected the way the group previously accounted for its operating leases, largely relating to hotel property leases. Lease rental contracts include hotel property leases, typically fixed for periods of 15 years to 99 years, but may have extension options as described below. Up to, and including the 2019 financial year, as a lessee under IAS 17, the group classified leases as operating or finance leases based on its assessment of whether the leases transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the group. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. The group had no finance leases at 31 March 2019.

At 31 March 2019, the group reported its expected right-of-use assets and lease liabilities to be R673 million and R950 million respectively.

Per IFRS 16, right-of-use assets were measured on transition as if the new rules had always been applied, discounted using respective incremental borrowing rates as of 1 April 2019 and providing for depreciation from commencement date of the lease until transition date. The recognised right-of-use assets are made up as follows:

	30 September 2019 Rm	1 April 2019 Rm
Property	**610**	**673**
Right-of-use assets recognised under IFRS 16	**610**	**673**

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's respective incremental borrowing rates as of 1 April 2019. The group's respective weighted average incremental borrowing rates applied to the lease liabilities on 1 April 2019 was 10.25%.

Reconciliation of outstanding commitments under non-cancellable operating lease agreements as at 31 March 2019 to the lease liabilities recognised as at 1 April 2019:

	Rm
Outstanding commitments at 31 March 2019 under IAS 7, undiscounted	**1 951**
Discounting adjustment using the respective incremental borrowing rates mentioned above	**(980)**
Outstanding commitments at 31 March 2019 under IAS 7, discounted	**971**
Less: Leases not capitalised	
Short-term leases	**(18)**
Low value leases	**(3)**
Lease liability recognised under IFRS 16 as at 1 April 2019	**950**
Analysed as:	
Non-current portion	**944**
Current portion	**6**
	950

	Rm
Other balance sheet impacts are:	
Deferred tax assets increase	**266**
Deferred tax liabilities increase	**(239)**
Straight-lining provision decreased	**186**

The following amounts have been included in the statement of profit or loss relating to leases:

	Six months ended 30 September 2019 Unaudited Rm
Depreciation charge of right-of-use assets	**(22)**
Property	**(22)**
Interest expense (included in finance cost)	**(49)**
Also, on comparison to prior year, property rentals reduced by	**71**

The group entered into an agreement with Ozmik Property Investments Proprietary Limited, to acquire the Southern Sun Pretoria hotel for R200 million. As this property was previously leased and included in the scope of IFRS 16, the lease liability that was raised on transition has now been settled. The right-of-use asset relating to this property has been reclassified to property, plant and equipment.

The adoption of IFRS 16 had no significant impact on the group's segments.

Practical expedients applied by the group on transition

The group applied the practical expedient per IFRS 16 C3 in that the IFRS 16 definition of a lease would only be applied to assess whether contracts entered into after the date of initial application (1 April 2019) are, or contain, leases, and electing not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made by applying IAS 17 and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. Hence, all contracts previously assessed not to contain leases were not reassessed. The group also applied the recognition exemptions for short-term leases (a lease that, at the commencement date, has a lease term of 12 months or less) and leases of low-value items (mainly small items of office equipment and furniture).

The group's accounting for leases under IFRS 16

Under IFRS 16, from 1 April 2019 the group recognises right-of-use assets and corresponding lease liabilities on the balance sheet for leases at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability.
- Any lease payments made at or before the commencement date, less any lease incentives received.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the group uses its respective incremental borrowing rates. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise mainly small items of office equipment and furniture.

Variable lease payments

Some property leases contain variable payment terms that are linked to gross revenue. These payments are recognised in profit or loss in the period in which the event or condition that triggers those payments occurs and are not included in the measurement of the lease liabilities.

The key judgements and estimates applied by the group in applying IFRS 16, includes the following:

In determining the respective discount rates, management has considered the rate of interest that the respective entity would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

2.2.2 Where the group is a lessor

Assets leased to third parties under operating leases are included in property, plant and equipment and investment property in the balance sheet. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as lease income. The group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

3 STANDARDS ISSUED NOT YET EFFECTIVE

The group does not anticipate that any standards or amendments to existing standards that have been published and are mandatory for the group's accounting periods beginning on or after 1 April 2020 or later periods, which the group has not early adopted, would have a material impact on the group.

4 FAIR VALUE MEASUREMENT

The group fair values its investment properties (categorised as level 3 values) and interest rate swaps (categorised as level 2 values). There were no transfers into or out of level 3 financial instruments, other than as shown below.

4.1 Investment properties

The movement of investment properties for the period is as follows:

	30 September 2019 Unaudited Rm	31 March 2019 Audited Rm
Opening net carrying amount	**4 881**	5 101
Acquisition and development of investment properties	**117**	159
Transfer of owner occupied property	**–**	66
Fair value adjustments recognised in profit or loss	**–**	(445)
Closing net carrying amount	**4 998**	4 881

Fair value measurement

The group's investment properties have been categorised as level 3 values based on the inputs to the valuation technique used. The group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the R186 (long bond) at the time of valuation, to which premiums for market risk as well as equity and debt costs are added. The discount rate takes into account a risk premium associated with the local economy as well as that specific to the local property market and the hotel industry. Fair values are estimated annually by an independent external valuer. The prior year includes a fair value adjustment at 30 September 2018, due to the HPF property portfolio being reviewed in anticipation of the acquisition of seven casino properties from Tsogo Sun Gaming.

Sensitivities

The table below indicates the sensitivities of the aggregate investment property portfolio by increasing or decreasing value inputs as follows:

	31 March 2019	
	Increase Rm	Decrease Rm
5% change in the net cash flows	274	(247)
25bps change in the capitalisation rate	(114)	123
50bps change in the discount rate	(91)	94

4.2 Interest rate swaps

The fair value of the group's derivatives used for hedge accounting is a liability of R15 million (31 March 2019: Rnil) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year. The group's derivatives at 30 September 2019 are all effective.

5 CHANGES IN INTEREST-BEARING BORROWINGS ARISING FROM FINANCING ACTIVITIES

Changes arising from financing activities for the six months ended 30 September 2019 related to interest-bearing borrowings, excluding bank overdrafts from short-term borrowings, are as follows:

	Long term Rm	**Short term Rm**	**Total Rm**
Balance at 1 April 2019	**2 885**	**290**	**3 175**
Borrowings raised	**300**	**334**	**634**
Borrowings repaid	**(13)**	**(248)**	**(261)**
Reclassification to short term	**(550)**	**550**	**–**
Other	**58**	**4**	**62**
Balance at 30 September 2019	**2 680**	**930**	**3 610**

	Long term Rm	Short term Rm	Total Rm
Balance at 1 April 2018	2 909	–	2 909
Borrowings raised	174	–	174
Borrowings repaid	(145)	–	(145)
Reclassification to short term	(290)	290	–
Other	237	–	237
Balance at 31 March 2019	2 885	290	3 175

6 BUSINESS COMBINATIONS

Acquisition of Riverside Conference Centre

The group concluded an agreement with Riverside Conference Centre (Proprietary) Limited to acquire its conferencing business. The provisional fair value of the net assets acquired is equal to the fair value of the consideration paid at the date of acquisition. The acquired business contributed R4 million to revenue during the period ended 30 September 2019.

	Rm
Other intangible assets – intellectual property	**11**
Deferred tax liability	**(3)**
Total identifiable net assets acquired	**8**
Cash purchase consideration	**(8)**
Provisional goodwill	**–**

No provisional goodwill arose on the acquisition.

7 RELATED PARTY TRANSACTIONS

7.1 Listing and unbundling of Tsogo Sun Hotels

The pre-listing statement for Tsogo Sun Hotels ('TGO') was released on 23 May 2019 with the effective date of the listing being 12 June 2019.

The company was unbundled by Tsogo Sun Gaming (previously Tsogo Sun Holdings Limited) to its shareholders (registered as such in the Tsogo Sun Gaming ('TSG') register at the close of business on the record date, Friday, 14 June 2019), by way of a distribution *in specie* to Tsogo Sun Gaming shareholders of one TGO share for every TSG share held. The listing of the entire issued share capital of the company in the 'travel and leisure' sector on the main board of the JSE was effective from the commencement of trade on Wednesday, 12 June 2019. As of the distribution date, Tuesday, 18 June 2019, Tsogo Sun Gaming and Tsogo Sun Hotels were independent public companies, the shares of which are listed on the JSE and have separate public ownership, boards of directors and management.

The group had no other significant related party transactions during the year under review.

8 SEGMENT INFORMATION

In terms of IFRS 8 *Operating Segments*, the chief operating decision maker ('CODM') has been identified as the group's Chief Executive Officer ('CEO') and senior management. Management has determined the operating segments based on the reports reviewed by the CODM. There has been no change to the basis of segmentation or to the basis of measurement of segment profit or loss from the pre-listing statement.

The CODM assesses the performance of the operating segments based on Ebitdar. The measure excludes the effects of long-term incentives and the effects of non-recurring expenditure. The measure also excludes all headline earning adjustments, impairments and fair value adjustments on non-current and current assets and liabilities.

9 CAPITAL COMMITMENTS

The board has committed a total of R677 million for maintenance and expansion capital items at its hotel properties of which R374 million is anticipated to be spent during the next 12 months. R88 million of the committed capital expenditure has been contracted for.

10 CONTINGENT LIABILITIES

The group had no significant contingent liabilities as at 30 September 2019.

11 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The directors are not aware of any matter or circumstance arising since the balance sheet date and the date of this report not otherwise dealt with within the financial statements.

Condensed consolidated income statement

for the six months ended 30 September

	Change %	2019 Unaudited Rm	2018 Unaudited Rm
Rooms revenue	3	**1 303**	1 271
Food and beverage revenue	4	**501**	480
Property rental income		**137**	137
Other income		**139**	142
Income	2	**2 080**	2 030
Property and equipment rentals		**(35)**	(104)
Amortisation and depreciation		**(173)**	(147)
Employee costs		**(654)**	(573)
Other operating expenses		**(898)**	(872)
Fair value adjustment on investment properties		**–**	(119)
Operating profit		**320**	215
Finance income		**15**	14
Finance costs		**(194)**	(250)
Share of profit of associates and joint ventures		**21**	21
Profit before income tax		**162**	–
Income tax expense		**(38)**	(7)
Profit/(loss) for the period		**124**	(7)
Profit/(loss) attributable to:			
Equity holders of the company		**54**	(38)
Non-controlling interests		**70**	31
		124	(7)
Basic and diluted earnings attributable to the ordinary equity holders of the company per share (cents)			
Number of shares in issue (million)		**1 061**	1
Weighted average number of shares in issue (million)		**550**	1
Basic and diluted earnings per share (cents)		**9.8**	(3 800.0)

Condensed consolidated statement of comprehensive income

for the six months ended 30 September

	2019 Unaudited Rm	2018 Unaudited Rm
Profit/(loss) for the period	**124**	(7)
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss	**(5)**	142
Cash flow hedges	**(15)**	–
Currency translation adjustments	**6**	142
Income tax relating to items that may subsequently be reclassified to profit or loss	**4**	–
Total comprehensive income for the period	**119**	135
Total comprehensive income attributable to:		
Equity holders of the company	**49**	104
Non-controlling interests	**70**	31
	119	135

Supplementary information

for the six months ended 30 September

	Change %	2019 Unaudited Rm	2018 Unaudited Rm
Reconciliation of earnings attributable to equity holders of the company to headline earnings and adjusted headline earnings			
Profit/(loss) attributable to equity holders of the company		**54**	(38)
Loss on disposal of plant and equipment		**1**	–
Fair value adjustment on investment properties		**–**	119
NCI effects of adjustments		**–**	(49)
Headline earnings	72	**55**	32
Fair value adjustment on interest rate swaps		**–**	(23)
Pre-opening costs		**–**	1
Restructuring costs (including termination benefits)		**21**	6
Transaction costs		**2**	17
Total tax effects of other exceptional items		**(6)**	(2)
Total NCI effects of other exceptional items		**–**	2
Share of associates' exceptional items (net)		**1**	–
Adjusted headline earnings	121	**73**	33
Number of shares in issue (million)		**1 061**	1
Weighted number of shares in issue (million)		**550**	1
Basic and diluted headline earnings per share (cents)		**10.0**	3 200.0
Basic and diluted adjusted headline earnings per share (cents)		**13.3**	3 300.0
Reconciliation of operating profit to Ebitdar[(1)] for the six months			
Ebitdar pre-exceptional items is made up as follows:			
Operating profit		**320**	215
Add/(less):			
Property and equipment rentals		**35**	104
Amortisation and depreciation		**173**	147
Long-term incentive expense/(credit)		**7**	(9)
		535	457
Add: Exceptional losses net of gains			
Headline adjustments		**1**	119
Loss on disposal of property, plant and equipment		**1**	–
Fair value adjustment on investment properties		**–**	119
Other adjustments		**23**	1
Fair value adjustment on interest rate swaps		**–**	(23)
Pre-opening costs		**–**	1
Restructuring costs (including termination benefits)		**21**	6
Transaction costs		**2**	17
Ebitdar	(3)	**559**	577

[(1)] *The measure excludes the effects of long-term incentives, non-recurring expenditure, headline earnings adjustments including impairments and fair value adjustments on non-current and current assets and liabilities and other exceptional items.*

Condensed consolidated cash flow statement

for the six months ended 30 September

	2019 Unaudited Rm	2018 Unaudited Rm
Cash flows from operating activities		
Profit before interest and income tax	**320**	215
Adjust for non-cash movements and dividends received	**252**	306
Decrease in working capital	**16**	19
Cash generated from operations	**588**	540
Finance income	**15**	14
Finance costs	**(182)**	(243)
	421	311
Income tax paid	**(44)**	(39)
Dividends paid to non-controlling interests	**(159)**	(195)
Dividends received	**13**	5
Net cash generated from operations	**231**	82
Cash flows from investment activities		
Purchase of property, plant and equipment	**(214)**	(134)
Proceeds from disposals of property, plant and equipment	**–**	1
Purchase of intangible assets	**(10)**	–
Additions to investment property	**(117)**	(100)
Loan advanced to associates	**(28)**	–
Other loans and investments made	**(13)**	(9)
Net cash utilised for investment activities	**(382)**	(242)
Cash flows from financing activities		
Borrowings raised	**634**	63
Borrowings repaid	**(261)**	(8)
Repayment of leases	**(106)**	–
Other current liabilities raised	**–**	84
Net cash generated from/(utilised in) financing activities	**267**	139
Net increase/(decrease) in cash and cash equivalents	**116**	(21)
Cash and cash equivalents at beginning of period, net of bank overdrafts	**212**	225
Foreign currency translation	**5**	13
Cash and cash equivalents at end of period, net of bank overdrafts	**333**	217

Condensed consolidated balance sheet

as at

	30 September 2019 Unaudited Rm	31 March 2019 Audited Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**7 873**	7 684
Right-of-use assets	**610**	–
Investment properties	**4 998**	4 881
Goodwill	**354**	354
Other intangible assets	**55**	50
Investments in associates	**521**	488
Investment in joint venture	**123**	120
Non-current receivables	**2**	6
Post employment benefit asset	**1**	1
Deferred income tax assets	**52**	52
	14 589	13 636
Current assets		
Inventories	**44**	46
Trade and other receivables	**465**	458
Other current assets	**20**	39
Cash and cash equivalents	**333**	407
	862	950
Total assets	**15 451**	14 586
EQUITY		
Capital and reserves attributable to equity holders of the company		
Ordinary share capital and premium	**4 642**	4 642
Other reserves	**349**	289
Retained earnings	**2 044**	2 059
Total shareholders' equity	**7 035**	6 990
Non-controlling interests	**2 850**	2 939
Total equity	**9 885**	9 929
LIABILITIES		
Non-current liabilities		
Interest-bearing borrowings	**2 680**	2 885
Lease liabilities	**836**	–
Derivative financial instruments	**15**	–
Deferred income tax liabilities	**186**	212
Long-term incentive liabilities	**–**	5
Deferred revenue	**36**	34
Provisions	**51**	51
Other non-current liabilities	**–**	186
	3 804	3 373
Current liabilities		
Interest-bearing borrowings	**930**	485
Lease liabilities	**7**	–
Trade and other payables	**604**	527
Deferred revenue	**73**	70
Long-term incentive liabilities current portion	**–**	29
Provisions current portion	**60**	74
Straight-lining of operating leases current portion	**–**	1
Current income tax liabilities	**88**	98
	1 762	1 284
Total liabilities	**5 566**	4 657
Total equity and liabilities	**15 451**	14 586

Condensed consolidated statement of changes in equity

	Attributable to equity holders of the company					
	Ordinary share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm	Non-controlling interests Rm	Total equity Rm
Balance at 31 March 2018 (audited)	1 923	118	2 161	**4 202**	3 209	**7 411**
Total comprehensive income	–	142	(38)	**104**	31	**135**
Loss for the period	–	–	(38)	**(38)**	31	**(7)**
Currency translation adjustments	–	142	–	**142**	–	**142**
Ordinary dividends	–	–	–	**–**	(195)	**(195)**
Balance at 30 September 2018 (unaudited)	1 923	260	2 123	**4 306**	3 045	**7 351**
Balance at 31 March 2019 (audited)	4 642	289	2 059	**6 990**	2 939	**9 929**
Change in accounting policy – adoption of IFRS 16 *Leases*[1]	–	–	(69)	**(69)**	–	**(69)**
Balance at 1 April 2019 (restated)	4 642	289	1 990	**6 921**	2 939	**9 860**
Total comprehensive income	–	(5)	54	**49**	70	**119**
Profit for the period	–	–	54	**54**	70	**124**
Cash flow hedges:						
Fair value losses during year	–	(15)	–	**(15)**	–	**(15)**
Deferred tax on fair value losses	–	4	–	**4**	–	**4**
Currency translation adjustments	–	6	–	**6**	–	**6**
Shareholders' redemption provision		24	–	**24**	–	**24**
Share-based payments conversion	–	41	–	**41**	–	**41**
Ordinary dividends	–	–	–	**–**	(159)	**(159)**
Balance at 30 September 2019 (unaudited)	4 642	349	2 044	**7 035**	2 850	**9 885**

[1] *Refer to note 2.2 on page 10.*

Segmental analysis

for the six months ended 30 September

	Income[1]		Ebitdar[2][3]		Ebitdar margin	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm	**2019 %**	2018 %
Manco	**127**	129	**64**	71	**50.4**	55.0
Rental income – HPF[5]	**123**	123	**123**	123	**100**	100
Internally managed	**1 600**	1 544	**302**	309	**18.9**	20.0
Coastal	**875**	825	**157**	141	**17.9**	17.1
Inland	**593**	587	**115**	130	**19.4**	22.1
Other	**132**	132	**30**	38	**22.7**	28.8
Offshore	**305**	306	**70**	74	**23.0**	24.2
Internal management fees[4]	**(81)**	(78)	**–**	–	**–**	–
Total	**2 074**	2 024	**559**	577	**27.0**	28.5

(1) All revenue and income from hotel operations are derived from external customers. No one customer contributes more than 10% to the group's total revenue.
(2) Refer reconciliation of operating profit to Ebitdar on page 20.
(3) The adoption of IFRS 16 had no significant impact on Ebitdar.
(4) Included in Manco.
(5) The CODM reviews rental income net of rates and taxes expensed by the lessor for segmental reporting purposes.

Revenue from contracts with customers

for the six months ended 30 September

The group derives revenue over time, with the exception of food and beverage revenue which is recognised at a point in time, together with its hotel customer reward programmes in terms of which revenue is recognised as the rewards are redeemed or they expire. The group has no contract assets. The table below presents revenue by segment which excludes other income as these are accounted for under different accounting policies, which are included in the segmental analysis on page 24. Disaggregation of revenue from contracts with customers for the period under review:

	Rooms revenue recognised over time		Food and beverage recognised at a point in time		Other revenue recognised over time		Revenue from external customers	
	2019 Rm	2018 Rm	**2019 Rm**	2018 Rm	**2019 Rm**	2018 Rm	**2019 Rm**	2018 Rm
Internally managed	**1 107**	1 074	**414**	390	**89**	89	**1 610**	1 553
Coastal	**606**	569	**234**	221	**35**	35	**875**	825
Inland	**405**	405	**157**	149	**31**	33	**593**	587
Other	**96**	100	**23**	20	**23**	21	**142**	141
Offshore	**196**	197	**87**	90	**22**	19	**305**	306
	1 303	1 271	**501**	480	**111**	108	**1 915**	1 859
Reconciliation to segmental analysis on page 24:								
Revenue from contracts with customers per above							**1 915**	1 859
Property rental income							**137**	137
Other income							**28**	34
Rates and taxes offset against rental income for segmental analysis purposes							**(6)**	(6)
Total income per segmental analysis							**2 074**	2 024

Bastion

TSOGO SUN
HOTELS

Directors
JA Copelyn (Chairman)* MN von Aulock (Chief Executive Officer)
L McDonald (Chief Financial Officer) MH Ahmed (lead independent)*#
SC Gina*# LM Molefi*# JG Ngcobo*# JR Nicolella* CC September*#
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