

City Lodge Hotels Limited
(Incorporated in the Republic of South Africa)
(Reg. No. 1986/002864/06)
Share Code: CLH ISIN Code: ZAE000117792
("City Lodge" or the "Company" or the "Group")

REVIEWED FINANCIAL INFORMATION FOR THE NINE MONTHS ENDED 31 MARCH 2020

For purposes of enhancing financial disclosure in the context of its rights offer ("the Rights Offer"), the Group has provided the reviewed financial information for the nine months ended 31 March 2020 prior to the publication of the Rights Offer circular on 3 August 2020.

Condensed consolidated statement of comprehensive income

R 000's	Nine months ended 31 March 2020 (reviewed)	Nine months ended 31 March 2019 (unaudited)
Revenue	1,130,763	1,178,624
Other income	4,093	3,335
Administration and marketing costs	(77,589)	(84,471)
BEE transaction charges	(235)	(132)
Expected credit loss on trade and other receivables	(1,814)	(1,908)
Operating costs excluding depreciation	(612,182)	(711,583)
	443,036	383,865
Depreciation and amortisation	(99,691)	(87,476)
Depreciation - leases	(72,984)	
Results from operating activities	270,361	296,389
Impairment loss on property, plant and equipment (refer to Note 5)	(245,464)	
Impairment loss on right-of use-assets (refer to Note 5)	(242,889)	
Interest income	2,088	1,296
Total interest expense	(149,902)	(42,866)
Interest expense ⁽¹⁾	(23,144)	(1,671)
Interest expense - leases	(85,426)	
BEE interest expense	(3,154)	(3,308)
BEE preference dividend	(38,178)	(37,887)
(Loss)/Profit before taxation	(365,806)	254,819
Taxation	50,000	(82,733)
(Loss)/Profit for the period	(315,806)	172,086
Other comprehensive income		
Items that are or may be reclassified to profit and loss		
Foreign currency translation differences ⁽²⁾	74,037	16,228
Total comprehensive income for the period	(241,769)	188,314
Basic earnings per share (cents)	(862.7)	470.5
Basic diluted earnings per share (cents)	(862.6)	469.6

⁽¹⁾ Interest expense for the nine months to 31 March 2020 increased due to a reduction in interest capitalised to hotels under construction of R22.5m (March 2019: R35.4m) following completion of those hotels.

⁽²⁾ Foreign currency translation differences increased largely due to strengthening of the Tanzanian Shilling compared to the SA Rand in March

Condensed consolidated statement of financial position

	31 March 2020 (reviewed)	31 March 2019 (unaudited)	30 June 2019 (audited)
R000's			
ASSETS			
Non-current assets	3,693,502	2,613,756	2,722,355
Property, plant and equipment	2,568,611	2,528,460	2,630,411
Right-of use-assets	1,006,422		
Intangible assets and goodwill	59,354	51,301	55,358
Investments	800	800	800
Other investments	8,155	13,599	13,073
Deferred taxation	50,160	19,596	22,713
Current assets	289,026	363,044	303,373
Inventories	7,548	7,571	7,978
Trade receivables	78,951	97,853	77,369
Other receivables	147,646	152,747	128,468
Taxation	3,245	-	11,935
Other investments	8,156	6,799	6,577
Cash and cash equivalents	43,480	98,074	71,046
Total assets	3,982,528	2,976,800	3,025,728
EQUITY			
Capital and reserves	759,343	1,090,144	1,106,701
Share capital and premium	179,503	179,503	179,503
BEE investment and incentive scheme shares	(514,381)	(518,014)	(518,014)
Retained earnings	883,509	1,277,160	1,307,529
Other reserves	210,712	151,495	137,683
LIABILITIES			
Non-current liabilities	2,183,131	1,693,405	1,701,435
Interest-bearing borrowings	660,000	660,000	660,000
BEE interest-bearing borrowings	-	44,120	44,120
BEE preference shares	-	355,000	355,000
BEE shareholder's loan	-	50,000	50,000
BEE B preference share dividend accrual	-	304,635	315,604
Lease liabilities	1,385,479		
Other non-current liabilities	-	84,975	78,899
Deferred taxation	137,652	194,675	197,812
Current liabilities	1,040,054	193,251	217,592
Trade and other payables	178,554	182,429	217,592
Lease liabilities	8,570		
BEE interest-bearing borrowings	44,120		
BEE preference shares	349,300		
BEE shareholder's loan	50,000		
BEE B preference share dividend accrual	347,722		
Taxation	-	7,694	
Bank overdraft	61,788	3,128	-
Total liabilities	3,223,185	1,886,656	1,919,027
Total equity and liabilities	3,982,528	2,976,800	3,025,728

Condensed consolidated statement of cash flows

	Nine months ended 31 March 2020 (reviewed)	Nine months ended 31 March 2019 (unaudited)
R000's		
Operating profit before working capital changes	346,551	365,079
Increase in working capital	(52,082)	(9,401)
Cash generated by operations	294,469	355,678
Interest received	2,088	1,296
Interest paid	(62,144)	(49,246)
Interest paid - leases	(85,426)	
Taxation paid	(36,098)	(54,066)
Dividends paid	(108,214)	(160,100)
Cash inflow from operating activities	4,675	93,562
Cash utilised in investing activities	(85,382)	(267,268)
investment to maintain operations	(53,863)	(37,124)
investment to expand operations	(31,519)	(229,544)
purchase of investment	-	(600)
Cash (outflow) / inflows from financing activities	(21,807)	195,870
repayment of lease liability	(13,167)	
purchase of incentive scheme shares	(2,940)	(1,530)
increase in interest-bearing borrowings	-	210,000
redemption of BEE preference shares	(5,700)	(12,600)
Net (decrease) / increase in cash and cash equivalents	(102,514)	22,164
Cash and cash equivalents at beginning of the period	71,046	53,093
Reclassification of other investments to cash and cash equivalents	6,577	20,398
Effect of movements in exchange rates on other investments	(3,238)	(1,178)
Effect of movements in exchange rates on cash held	9,821	469
Cash and cash equivalents at end of the period	(18,308)	94,946

Note: The reclassification of other investments to cash and cash equivalents relates to the portion of deposits previously held with Chase Bank, Kenya, which was placed into receivership, and which have now been released back to depositors.

Condensed consolidated statement of changes in equity

R000's	Share capital and premium	Treasury shares	Other reserves	Retained earnings	Total
Balance at 30 June 2018	179,503	(524,984)	138,173	1,265,174	1,057,866
Total comprehensive income for the period	-	-	16,228	172,086	188,314
Profit for the period				172,086	172,086
<i>Other comprehensive income</i>					
Foreign currency translation differences			16,228		16,228
Transactions with owners, recorded directly in equity	-	6,970	(2,906)	(160,100)	(156,036)
Incentive scheme shares		6,970	(8,500)	-	(1,530)
Share compensation reserve			5,594		5,594
Dividends paid				(160,100)	(160,100)
Balance at 31 March 2019	179,503	(518,014)	151,495	1,277,160	1,090,144
Total comprehensive income for the period	-	-	(18,625)	33,370	14,745
Profit for the period				33,370	33,370
<i>Other comprehensive income</i>					
Foreign currency translation differences			(18,625)		(18,625)
Transactions with owners, recorded directly in equity	-	-	4,813	(3,001)	1,812
Incentive scheme shares			(11,944)	(3,001)	(14,945)
Share compensation reserve			16,757		16,757
Dividends paid					-
Balance at 30 June 2019	179,503	(518,014)	137,683	1,307,529	1,106,701
Total comprehensive income for the period	-	-	74,037	(315,806)	(241,769)
Profit for the period				(315,806)	(315,806)
<i>Other comprehensive income</i>					
Foreign currency translation differences			74,037		74,037
Transactions with owners, recorded directly in equity	-	3,633	(1,008)	(108,214)	(105,589)
Incentive scheme shares		3,633	(6,573)		(2,940)
Share compensation reserve			5,565		5,565
Dividends paid				(108,214)	(108,214)
Balance at 31 March 2020	179,503	(514,381)	210,712	883,509	759,343

Supplementary financial information

	Nine months ended 31 March 2020 (reviewed)	Nine months ended 31 March 2019 (unaudited)
1. Headline earnings reconciliation		
(Loss)/Profit before taxation	(315,806)	172,086
Impairment of property, plant and equipment and right-of-use assets	488,353	
Taxation effect of impairment of property, plant and equipment and right-of-use assets	(143,799)	-
Headline earnings	28,748	172,086
Number of shares in issue (000's)	36,677	36,677
Weighted average number of shares in issue for EPS calculation (000's)	36,606	36,575
Weighted average number of shares in issue for diluted EPS calculation (000's)	36,612	36,645
Headline earnings per share (cents)		
- undiluted	78.5	470.5
- fully diluted	78.5	469.6
Net asset value per share (Rands)	20.7	29.7
Net tangible asset value per share (Rands)	19.1	28.3
2. Normalised headline earnings reconciliation		
Headline earnings	28,748	172,086
BEE transaction charges	235	132
BEE interest on interest-bearing borrowings	3,154	3,308
Preference dividends paid/payable by the BEE entities	38,178	37,887
10th anniversary employee share trust transaction charges and DWT	(37)	(34)
IFRS 2 share based payment expense of 10th Anniversary Employee Share Trust	2,196	2,091
Reversal of impairment - other investment in Chase Bank Kenya (net tax)		(9,403)
Pre-opening expenses write-off (net of tax)	6,390	7,937
Normalised headline earnings	78,864	214,004
3. Number of shares (000's)		
Weighted average number of shares in issue for EPS calculation	36,606	36,575
BEE shares treated as treasury shares	6,390	6,390
10th Anniversary Employee Share Trust treated as treasury shares	507	507
Weighted average number of shares in issue for normalised EPS calculation	43,503	43,472
Weighted average number of shares in issue for diluted EPS calculation	36,612	36,645
BEE shares treated as treasury shares	6,390	6,390
10th Anniversary Employee Share Trust treated as treasury shares	507	507
Weighted average number of shares in issue for diluted normalised EPS calculation	43,509	43,542

	Nine months ended 31 March 2020 (reviewed)	Nine months ended 31 March 2019 (unaudited)
4. Normalised ordinary shares in issue reconciliation ('000s)		
Shares in issue	36,677	36,677
BEE shares treated as treasury shares	6,390	6,390
10th Anniversary Employee Share Trust shares treated as treasury shares	507	507
Normalised ordinary shares in issue	43,574	43,574
5. Normalised headline earnings per share (cents)		
- undiluted	181.3	492.3
- undiluted excluding IFRS 16	297.3	492.3
- diluted	181.3	491.5
- diluted excluding IFRS 16	297.3	491.5
6. Dividend declared per share (cents)	153.0	229.0
7. Dividend cover (times)		
- calculated on normalised headline earnings excluding IFRS 16	1.9	2.1
8. Effect of IFRS 16 Leases on normalised headline earnings		
Normalised headline earnings	78,864	
Net effect on adoption of IFRS 16	50,496	
Lease expense previously included in operating costs	(88,389)	
Depreciation - leases	72,984	
Interest expense - leases	85,426	
Taxation effect	(19,525)	
Normalised headline earnings excluding IFRS 16	129,360	214,004
9. Normalised interest-bearing debt (excluding IFRS 16) to equity (%)		
calculated on a normalised basis	44.3	34.7
10. Normalised return on normalised average equity (%)		
calculated on a normalised basis	7.2	11.3
11. Normalised net asset value per share (Rands)		
calculated on a normalised basis	37.4	43.9
12. Normalised interest bearing debt (excluding IFRS 16) (R'000s)		
Interest-bearing borrowings	660,000	660,000
Bank overdraft	61,788	3,128
Normalised interest bearing debt excluding IFRS 16	721,788	663,128

	Nine months ended 31 March 2020 (reviewed)	Nine months ended 31 March 2019 (unaudited)
13. Normalised equity reconciliation (R'000s)		
Capital and reserves	759,343	1,090,144
BEE and 10th Anniversary Employee Share Trust treasury shares	504,729	504,729
Fair value of BEE - retained earnings	331,832	293,653
Fair value of 10th Anniversary employee Share Trust - retained earnings	14,578	15,180
Kenya CGT reversal - retained earnings	15,561	15,561
Chase Bank impairment - retained earnings	7,383	7,383
Pre-opening expenses (net of tax) retained earnings	23,955	14,016
Other equity - BEE - other reserves	(26,941)	(26,941)
Normalised equity	1,630,440	1,913,725

Review of Operations

The restricted operational and economic environment arising from the COVID-19 pandemic had an adverse impact on the Group's results towards the end of the nine months ended 31 March 2020, and increasingly so for the year ended 30 June 2020. The impact of the COVID-19 pandemic on the Group's business and results of operations generally increased in magnitude and severity following 31 March 2020 as conditions worsened due to the implementation of lockdown measures, both domestically and internationally. Occupancy for the Group's hotels in South Africa for the nine months ended 31 March 2020 was 52.7% down from 59% for the nine months ended 31 March 2019. March occupancy reduced to 27% in the second half of the month, following the declaration of a national state of disaster in South Africa on the 15 March 2020. Average occupancy for the Group for the nine months ended 31 March 2020 was 50%, down from 56.6% for the nine months ended 31 March 2019.

The Group has incurred a net loss for the nine months ended 31 March 2020 of R315.8 million (31 March 2019: profit of R172.1 million) primarily due to exceptional losses of R344.6 million (2019: R nil) net of tax related to the impairment of property, plant and equipment and right-of-use assets of some hotels, together with the impairment of deferred tax assets of R47.1 million (2019: R nil), and the recognition of IFRS 16 *Leases* interest expense and depreciation net of previously recognised lease expenses of R50.5 million, net of tax. The impairments are due to management's assessment of the negative impact of COVID-19 on forecast cash flows generated by the underlying hotels and increased risk assessments that have had a material impact on discount rates applied across the portfolio.

Total revenue decreased by 4.1% to R1,130.8 million due to the challenging operating environment impacted by persistent low levels of economic growth and business and consumer confidence throughout the year, further compounded by the impact of COVID-19 on operations at the end of the nine month period.

Due to the implementation of IFRS 16 *Leases*, reported operating costs decreased by 14.0%. Excluding the effects of IFRS 16 normalised operating costs decreased by 1.5% and the EBITDA margin decreased by one percentage point to 31.4%.

Depreciation and amortisation on owned assets increased by 14.0%, while a depreciation charge for right-of-use assets of R73.0 million was raised for the first time. Interest income increased by R0.8 million and the interest expense rose by R21.5 million to R23.1 million as a result of lower borrowing costs being capitalised as the construction of new hotels came to an end. An interest expense - leases of R85.4 million has now been raised in relation to the lease liabilities.

Normalised HEPS decreased by 63.2% to 181.3 cents. Excluding the effects of IFRS 16 *Leases*, normalised HEPS decreased by 39.6% to 297.3 cents.

1. Basis of Preparation for the condensed consolidated financial statements

The condensed consolidated financial statements for the nine months ended 31 March 2020 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of

International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements, except for the adoption of IFRS 16 *Leases*.

The condensed consolidated financial information has been presented on the historical cost basis, and are presented in Rand thousands which is City Lodge's functional and presentation currency.

These condensed consolidated financial statements have been prepared under the supervision of Ms D Nathoo CA(SA), in her capacity as chief financial officer.

2. Review Report of the Independent Auditor

These condensed consolidated financial statements for the nine months ended 31 March 2020 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion, which included the following emphasis of matter paragraph in respect of the material uncertainty relating to going concern. "We draw attention to the note 15 to the condensed consolidated financial statements, (relating to going concern) which indicates that the group (defined as the parent entity (City Lodge Hotels Limited) and all its subsidiaries) incurred a loss of R315,806 thousand for the nine months ended 31 March 2020 and as of that date the group's current liabilities exceeded its current assets by R751,028 thousand. Should the rights Offer not be successful as set out in note 15, these events and conditions indicate that a material uncertainty exists that could cast significant doubt on the group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter".

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 Company's registered office.

3. Changes in Significant Accounting Policies **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 from 1 July 2019, the most significant accounting pronouncement for the Group being IFRS 16 *Leases*.

The Group has applied IFRS 16 and adopted the modified retrospective approach. The comparative information has therefore not been restated and continues to be reported under IAS 17, as permitted under the specific transition provisions of the standard.

No adjustments were made to the opening retained earnings. On transition, the straight-lining accrued liability was off-set against the right-of-use asset. No other pronouncements had a material impact on the Group.

IFRS 16 Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous lease standard, IAS 17, and related interpretations.

Under IAS 17, the Group accounted for operating leases by charging lease payments to profit or loss on a straight-line basis over the initial period of the lease. The Group had no finance leases as at 1 July 2019.

IFRS 16 has one model for lessees which results in leases previously classified as operating leases and recorded off-balance sheet being capitalised on the statement of financial position, requiring a right-of-use asset and a lease liability to be recognised. At 1 July 2019, the Group raised a right-of-use asset of R1.3 billion, and a lease liability of R1.4 billion.

Measurement of right-of-use asset

The right-of-use asset recognised at lease commencement includes the amount of lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Right-of-use assets are depreciated using the straight line method over the lease term. In addition, the right-of-use asset is periodically assessed for impairments, and reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Measurement of lease liability

The lease liability is initially measured at the present value of the lease payments to be made over the lease term, discounted using the rate implicit in the lease or, if that rate is not readily determinable, the Group's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprises fixed payments, including in-substance fixed payments.

Lease payments are allocated between principal and finance cost. The finance costs are charged to profit and 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.

As part of the modified retrospective approach, the Group has elected to apply the practical expedient which allows a single discount rate to be applied to a portfolio of leases with reasonably similar characteristics. The Group has applied the recognition exemptions for short-term leases (leases which have a lease term of 12 months or less) and leases of low-value items.

Some property leases contain variable payment terms that are linked to gross revenue. These payments are recognised in profit and loss in the period in which the conditions that trigger those payments occurs.

Modification of leases

When the Group modifies the terms of the lease or reassesses the estimates without increasing the scope of the lease, that results in changes to future payments, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. An equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being depreciated over the revised lease term.

Adoption of IFRS 16

On adoption of IFRS 16, the Group's right-of-use assets for property leases were measured on the modified retrospective approach. All right-of use assets were measured at the amount equal to the lease liability, adjusted by any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 June 2019.

R'000s	01 July 2019
Lease liability recognised	1,389,607
Accrued lease payments	(78,899)
Right-of-use asset recognised under IFRS 16	1,310,708

On adoption of IFRS 16, the Group recognised lease liabilities measured at the present value of remaining lease payments discounted at the incremental borrowing rate at the date of initial application. The Group's respective weighted average incremental borrowing rate applied to these lease liabilities on 1 July 2019 was 9.125%.

Reconciliation of outstanding commitments under non-cancellable operating lease agreements to the lease liability recognised:

	R'000s
Operating lease commitments disclosed as at 30 June 2019	960,471
Discounting adjustments using the respective incremental borrowing rates	429,136
Lease liability recognised under IFRS 16 as at 1 July 2019	1,389,607
Of which:	
Current lease liabilities	16,537
Non-current lease liabilities	1,373,070
	1,389,607

Impact to the nine month period to 31 March 2020

R'000s	31 March 2020	30 June 2019
<i>Effect of the statement of financial position</i>		

Operating lease accrual	-	(78 899)
Right-of-use assets (net of impairments)	1 006,422	
Lease liability	(1 394 049)	

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

R'000s	Nine months ended 31 March 2020	Nine months ended 31 March 2019
Depreciation - leases	72,984	
Impairment of right-of-use assets	242,889	
Interest expense - leases	85,426	
Effect on profit before tax for the period had there been no change in the accounting policy	401,299	-
Had the Group accounted for leases under IAS 17 property rentals would have amounted to	(88,389)	(84,276)

Practical expedients applied by the Group on transition

The Group applied the practical expedient per IFRS 16 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 July 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 following expedients on transition:

- Recognition exemptions for short-term leases (a lease that at the commencement date, has a lease term of 12 months or less);
- Recognition exemptions for leases of low-value items (mainly small items of office equipment and furniture); and
- Relied on its existing onerous lease contract assessments as an alternative to performing impairment reviews on right-of-use assets as at 1 July 2019.

4. Significant judgements and estimates

The preparation of the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience, consideration of market predictions at these unprecedented time and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, in addition to information about impairments set out in note 5 and going concern set out in note 15, information about significant areas of estimation, uncertainty and critical judgements, in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is in relation to the following:

Measurement of share-based payments

Equity-settled share appreciation right scheme

The Group plan provides for a grant price equal to the 10-day volume weighted average market price of the Group's shares on grant date. The vesting period is generally three to five years. The vesting of the share appreciation right ("SAR") is subject to the achievement of specified performance conditions.

The performance conditions are that the normalised headline earnings per share ("HEPS") should increase:

- by between the Consumer Price Index ("CPI") per annum and 2 percentage points per annum above CPI; or
 - by more than CPI plus 2 percentage points per annum above CPI
- over a three-year performance period.

25% of the SAR will vest if the former performance condition is satisfied and 100% of the SAR will vest if the latter is satisfied, with linear vesting between them.

If the SARs remain unexercised after a period of seven years from grant, they expire. Furthermore, unexercised SARs are forfeited if the employee leaves the Group before they expire. Fair value is measured using an American binomial valuation model. Expected volatilities are 90% based on short, medium and long-term historical volatilities, with cognisance taken of market conditions to explain the variance from historical data. No other features, other than disclosed, of the option grant were incorporated into the measurement of fair value.

Equity-settled 10th anniversary employee share plan

The Group plan provides for an annual share distribution equal to half of the financial year's capital growth, if any, of the portfolio of City Lodge shares held by the trust. The distributions to eligible employees (employees in the service of the Group for at least one year) are equity-settled three months after year-end, provided that the portfolio's market value at year-end exceeds the market value at the previous year-end. Entitlements are forfeited if the employee leaves the Group's service before a distribution takes place. The vesting period is one year. Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous two years. Fair value is measured using a European binomial valuation model.

Measurement of deferred tax assets and liabilities

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the reporting date.

Subsidiaries in Namibia and Tanzania have incurred losses in the current period as well as in prior years. The deferred tax assets recognised for taxable losses incurred has been impaired in the current period. Previously, the directors view has been that a new hotel takes a few of years to establish itself before generating good returns. However, due to the impact of the COVID-19 pandemic on short to medium term forecasts, the directors have assumed that it will take longer than historically for these hotels to make the required returns to utilise the deferred tax assets. Therefore, impairment of deferred tax assets has been recognised in Namibia and Tanzania, of R17.2 million and R29.8 million respectively. The remaining R50.2 million deferred tax assets are considered recoverable as they relate to timing differences between asset depreciation and impairments, and wear and tear allowances, and will be utilised against future taxable profits.

5. Impairment of Property, Plant and Equipment and Right-of-Use Assets

During the nine months ended 31 March 2020, the Group impaired property, plant and equipment by R245.5 million (2019: R nil) and right-of-use assets by R242.9 million (2019: R nil) as a consequence of the downward short to medium-term trading expectations due to the global COVID-19 pandemic. The recoverable amount has been determined by calculating either the value in use using a discounted cash flow model (DCF) or fair value less costs to sell. The discount rate utilised in the valuation was 16.1% in the next financial year, reducing to a normalised level of 15.5% by 2023 for South African hotels and range between 8.0% and 19.9% for Rest of Africa hotels. Management assumed nil occupancies for all 62 hotels in South Africa and Rest of Africa, for the first three months following the start of lock-down, with a gradual increase in occupancy and a phased hotel re-opening for the first quarter of 2021. Cash flows for the remainder of 2021 will remain constrained with the Group assumed to reach break-even EBITDA levels in around the last quarter of 2021. Occupancy and trading levels are assumed to return to 2019 financial year levels within the 2022 financial year. The annual growth rate applied to cash flow forecasts for established hotels for 2023 to 2025 financial years is 5%. The terminal growth rate applied is 4.5% for South African hotels and ranges between 4% and 6% for the Rest of Africa hotels. Fair value less costs to sell was based on information in the market relating to comparable sales. In the case of new hotels in Rest of Africa, which become operational during the last two years, fair value less costs to sell was determined as 75% of the cost of the hotel, as this was considered the best available estimate.

The carrying values of property, plant and equipment and right-of-use assets of the following geographical regions were impaired during the year.

R'000s	2020		
	Property, plant and equipment	Right-of-use asset	Total
South African	29,492	167,864	197,356
Rest of Africa	215,972	75,025	290,997
	245,464	242,889	488,353

The table below indicates the sensitivities of the aggregate impairments for the following changes to assumptions:

R'000s	Increase	Decrease
5% change in the net cash flows	9,124	(14,918)
25bps change in the terminal growth rate	2,821	(2,697)
50bps change in the discount rate	(13,917)	9,455

6. Fair value measurements of financial instruments

Financial instruments are initially measured at fair value plus, for financial instruments not at fair value through profit and loss, any attributable transaction costs. Subsequent to initial recognition, these instruments are measured at amortised cost using the effective interest method. The Group has no financial instruments that are measured at fair value.

Financial instruments' fair value approximates the carrying value of the financial instruments as they are either short term in nature or where long term, accounted for at amortised cost using market related interest rates.

7. Pro forma financial information

The supplementary information presented, contains information presented on a normalised basis. This information is the responsibility of the company's directors and has been prepared for illustrative purposes only. It may not fairly present the company's financial position, changes in equity, results of operations or cash flows. The independent reporting accountant's report on the supplementary information is available at the company's registered office.

8. Revenue

The Group derives revenue at a point in time, together with its customer reward programme which are recognised as they are redeemed or expire. The Group has no contract assets or contract liabilities.

Disaggregation of the revenue from contracts with customers for the period under review at a point in time:

R'000s	Nine months ended 31 March 2020	Nine months ended 31 March 2019
Accommodation	970,080	1,026,078
Food and beverage	151,180	152,546
Other revenue	9,503	-
	1,130,763	1,178,624
Primary geographical markets		
South Africa	1,024,000	1,070,879
Rest of Africa	106,763	107,745
	1,130,763	1,178,624

9. Segment Analysis

The segment information has been prepared in accordance with IFRS 8 *Operating Segments* which defines the requirements for the disclosure of the financial information of an entity's operating segments.

The standard requires a 'management approach' whereby segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision-maker/s who have been identified as the Group's executive directors. These individuals review the Group's internal reporting by hotel brand in order to

assess performance and allocate resources. Depreciation for reportable segments is an asymmetrical expense as assets are not classified by segment. The depreciation charge for each reportable segment relates to furniture, fitting and equipment, while the majority of the charge for central office and other relates to hotel buildings. The measurement policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

Nine months ended 31 March	City Lodge Hotel		Town Lodge		Road Lodge		Courtyard Hotel		Central Office and Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	(R thousands)											
Revenue	582,352	615,791	169,702	167,282	221,111	237,371	50,835	50,435	106,763	107,745	1,130,763	1,178,624
Results from operating activities.....	269,542	309,681	49,527	61,770	90,346	111,675	7,283	11,607	(146,337)	(198,344)	270,361	296,389
Depreciation and amortisation.....	16,499	19,118	7,151	5,745	8,656	8,273	2,628	3,115	64,757	51,225	99,691	87,476
Depreciation – leases.....	–	–	–	–	–	–	–	–	72,984	–	72,984	–
Adjusted EBITDA^(a)....	286,041	328,799	56,678	67,515	99,002	119,948	9,911	14,722	(8,596)	(147,119)	443,036	383,865
Land and hotel building rental ^(b)	–	–	–	–	–	–	–	–	5,714	84,948	5,714	84,948
Adjusted EBITDAR^(c)..	286,041	328,799	56,678	67,515	99,002	119,948	9,911	14,722	(2,882)	(62,171)	448,750	468,813

- Adjusted EBITDA represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation and impairment charges. Adjusted EBITDA and Adjusted EBITDAR excludes amounts relating to impairments amounting to R448,353 thousand which are recorded in the Central Office and Other segment.
- Land and hotel building rental primarily reflects turnover based rentals post implementation of IFRS 16 Leases. However, prior to the adoption of IFRS 16 Leases, it included straight lining of lease rentals from operating leases. See “—Key Factors Affecting Results of Operations—IFRS 16 Leases”.
- Adjusted EBITDAR represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation, impairment charges and rental.

10. Capital commitments

As at 31 March 2020, the directors had authorised a total of R226.6 million for maintenance and expansion capital items, of which R109.6 million is committed. R60.1 million of the committed capital expenditure has been contracted. Given the uncertainty created by the COVID-19 pandemic, the remaining R117 million of authorised spend has been put on hold.

11. Contingent liabilities

The Group has no significant contingent liabilities as at 31 March 2020.

12. Standards and interpretations issued not yet effective

The Group does not anticipate that any standards, interpretations 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.

13. Subsequent events

President Ramaphosa's pronouncement of a 21 day nationwide lockdown from 27 March 2020 (and the further extension thereof until Thursday, 30 April 2020 as announced on Thursday, 9 April 2020), and the ongoing, significant impact of COVID-19, coupled with the imposition of the ban on international arrivals from most countries and restrictions on domestic travel on the already challenging operating environment, has resulted in the Group experiencing a significant downturn in occupancies.

Following the implementation, of a nationwide lockdown, the Group ceased operations at all of its 55 South African hotels. Subsequently, in line with announcements in the remaining territories in which the Group operates, all 62 Group hotels were closed, resulting initially in no revenue being earned. Limited operating activities have however since taken place for varying periods and in compliance with lockdown regulations and directions. Further operating activities have resumed in accordance with the Level 3 COVID-19 Risk Adjusted Strategy regulations, albeit at low occupancies.

In response to the impact of COVID-19 on revenues and occupancy, the Group has embarked on strict cost containment initiative to reduce costs and preserve cash. These include:

- **Capital expenditure** has been suspended for of all non-essential and uncommitted spend.
- **Rent relief** – the Group has obtained rent deferral (e.g. repayment over the remaining period of the lease) or other rental relief for the majority of the Group's leased properties for an initial period of 3 months from April to June. Further discussions are currently underway to secure extensions to the rent relief offered;
- **Reduction in salaries** - the Group has implemented 50% salary reductions for all employees who, due to the nature of their work, are not able to work remotely, with effect from April 2020 for an initial period of three months, and extended by a further two months from July. The salary reductions are subject to ongoing reviews. To assist with limiting the effect of the reduction in employee earnings, the Company is assisting with applications for the revised UIF benefits. In recognition of the challenging circumstances, the Board and fourteen members of the executive and senior management team, have agreed to forego 20% of their fees and salaries over the commensurate five-month period.
- **Suspension of certain large key contracts** for services being performed in-house
- **Reduction in fixed service contracts** due to reduced frequency of services e.g. lift maintenance, or lower demands for non-essential support services e.g. HR and IT service contracts.
- **Culling of variable expenses** until trading and occupancy levels return to pre-COVID levels.

14. Liquidity and funding

The Group has assessed and implemented, various liquidity and capital measures to help ensure that the Group's business can withstand the pro-longed industry recovery period due to COVID-19 and to meet the liquidity, working capital and expenses requirements, including (among others):

- The consummation of a R1,2 billion Rights Offer
- Retaining continued access to the undrawn Loan C secured revolving credit facility
- Securing an additional R200 million Loan E secured revolving credit facility from our lenders until the rights offer is consummated and,
- Securing the waiver of the borrowing covenants for both the June 2020 and December 2020 measurement periods.

15. Going Concern

The continued downturn in the South African economy over the nine months, compounded by the significant impact of COVID-19 pandemic on the travel and the hospitality sector has had a profound impact on the trading operations of the Group, and the associated revenue streams, for last three months of 2020, and will continue to have an impact on the 2021 financial year. These pressures have adversely impacted the group's cash position and has triggered the recognition of pre-tax impairment losses on the Group's portfolio of hotels of R488.4 million, and deferred tax assets R47.1 million

The Group has incurred a net loss for the nine months ended 31 March 2020 of R315.8 million (31 March 2019 profit of R172.1 million) primarily due to pre-tax impairment losses on property, plant and equipment and right-of-use assets of R488.4 million, and deferred tax assets R47.1 million (31 March 2019 – R nil) and the recognition of IFRS 16 'Leases' interest expense and depreciation net of previously recognised lease expenses of R50.5 million. As at 31 March 2020, the Group has a net cash and cash equivalents overdraft of R18.3 million, and the current liabilities exceeded its current assets by R751.0 million relating primarily to financial commitments in respect of the BEE preference shares and accrued dividend liabilities and BEE interest bearing borrowings amounting to R741.1 million which are due for repayment on 31 January 2021.

The condensed consolidated financial statements for the nine months ended 31 March 2020 are prepared on the going concern basis. The directors recognise the going concern challenges and have addressed these through actions taken and being proposed by management to ensure sufficient liquidity to meet its obligations and to counteract the expected losses that may result from the impact of COVID-19 on the Group's operations. These actions include

- The COVID-19 cost containment initiative as detailed in note 13.
- Through continuous engagement and support from the Group's lenders, an additional R200 million secured revolving credit facility has been made available to provide liquidity until the rights offer is consummated, in addition to the continued access to existing undrawn facilities in Loan C of R90 million. The Group has also secured the waiver of the borrowing covenants for both the June 2020 and December 2020 measurement periods.
- The Group is currently in the process of an equity raise through a Rights Offer for R1.2 billion which is planned to be completed by the end of August. The Rights Offer will be fully underwritten. The Board intends to use the net proceeds of the Rights Offer to repay a substantial portion of amounts owing under its Secured Facilities, retain on deposit an amount equal to, and set aside for the settlement of, the Company's guarantee of the BEE interest-bearing borrowings and the BEE Preference shares and accrued dividends liability to settlement date, and to improve liquidity, including to ensure that the Group

is well positioned from a working capital perspective to fully resume operations as lockdown measures relating to the COVID-19 pandemic are lifted in its various countries of operation.

- In preparing the cash flow forecasts utilised to assess the going concern, the impact of the pandemic on the Group's operations and liquidity was considered. The cash flow statements remain challenging in the short term, however the longer-term outlook over the next five years remains positive.

The Group does however accept that because of the factors mentioned above and in the unlikely event that the rights offer is not successfully concluded, there is a material uncertainty relating to the Group's ability to continue as a going concern notwithstanding the effects of the cost containment measures adopted and additional borrowing facilities secured. In such a case, the Group may consider additional measures, such as selective asset disposals and sale-and-leaseback transactions, among others.

The directors' note the emphasis of matter paragraph included in the review report by the Group's auditors on the condensed consolidated financial statements for the nine months ended 31 March 2020 related to the material uncertainty related to going concern. However, should the Rights Offer be successfully completed and proceeds received, the directors and the Group's auditors will review the going concern assumption in the preparation of the Annual Financial Statements for the year end 30 June 2020.

Definitions

Headline earnings

Headline earnings are calculated in terms of circular 1/2019.

Definitions of Non-IFRS Measures

These measures are not defined by IFRS and which are used by the group to assess the financial performance of its businesses.

Normalised headline earnings

Normalised headline earnings are calculated as headline earnings adjusted for the effects of:

- Transactions relating to the BEE entities as well as the related deferred tax
- Pre-opening expenses (net of tax)
- IFRS 2 share based payment charge for the 10th Anniversary Employee Share Trust
- Transactions that are of a non-recurring / non-core nature

Normalised headline earnings excluding IFRS16 Leases

Normalised headline earnings before the effect of the implementation of IFRS 16 Leases

Normalised headline earnings per share

Normalised headline earnings divided by the normalised weighted average number of ordinary shares in issue for the period (which is defined as the number of shares for EPS calculation, adjusted for BEE shares and 10th Anniversary Employee Share Trust shares treated as treasury shares).

Normalised headline earnings excluding IFRS 16 Leases per share

Normalised headline earnings excluding expenses relating to implementation of IFRS 16 Leases divided by the weighted average number of ordinary shares in issue adjusted for BEE shares and 10th Anniversary Employee Share Trust shares.

Normalised diluted headline earnings per share

Normalised headline earnings divided by the normalised weighted average number of ordinary shares in issue for the period (which is defined as the number of shares for diluted EPS calculation, adjusted for BEE shares and 10th Anniversary Employee Share Trust shares treated as treasury shares) and any outstanding share options in issue.

Normalised diluted headline earnings excluding IFRS 16 Leases per share

Normalised headline earnings excluding expenses relating to implementation of IFRS 16 Leases divided by the normalised weighted average number of ordinary shares in issue for the period for diluted EPS calculation.

Dividend cover

Normalised diluted headline earnings per share divided by dividends declared per share.

Normalised net asset value per share

Normalised equity divided by the normalised shares in issue at year end.

Normalised return on normalised average equity

Normalised headline earnings excluding expenses relating to implementation of IFRS 16 Leases attributable to ordinary shareholders expressed as a percentage of the average normalised equity.

Normalised interest-bearing debt excluding IFRS 16 Leases to normalised equity

Interest-bearing borrowings excluding lease liabilities related to implementation of IFRS 16 Leases, expressed as percentage of normalised equity.

Normalised equity

Capital and reserves adjusted for the effects of:

- Transactions relating to the BEE entities as well as the related deferred tax
- Pre-opening expenses (net of tax)
- IFRS 2 share based payment charge for the 10th Anniversary Employee Share Trust
- Transactions that are of a non-recurring / non-core nature

Normalised average equity

The sum of normalised equity for the current and prior year divided by two.

Normalised shares in issue

Issued share capital of the company, including treasury shares.

For and on behalf of the board

Bulelani Ngcuka
Chairman

Andrew Widegger
Chief executive officer

Johannesburg
30 July 2020

Registered office: The Lodge, Bryanston Gate Office Park, corner Homestead Avenue and Main Road, Bryanston, 2191

Transfer secretaries: Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Directors:

B T Ngcuka (Chairman)*
A Widegger (Chief Executive Officer)*
G Huysamer^
F W J Kilbourn^ (Lead Independent Director)
M S P Marutlulle
N Medupe^
S G Morris^
D Nathoo (Chief Financial Officer)*
V M Rague†
L G Siddo (Chief Operating Officer)*

†Kenyan

* Executive

^ Independent

● Non-executive

Company secretary: M C van Heerden

Sponsor: Nedbank Corporate and Investment Banking

