

# CITY LODGE HOTEL GROUP

REVIEWED GROUP PRELIMINARY RESULTS

*for the year ended 30 June 2020*



We've missed you.  
#Welcomeback



REVENUE

**R1,16bn**

2019: R1,55bn (-25%)

*#staysafe*

Caring comes from the heart

AVERAGE  
GROUP  
OCCUPANCIES

**38%**

2019: 55% (-17% points)

EARNINGS  
PER SHARE

**-1 329,4c**

2019: 562,0c (-337%)

NORMALISED  
DILUTED  
HEADLINE EPS

**-181,1c**

2019: 613,4c (-130%)



NORMALISED  
DILUTED  
HEADLINE EPS  
(excluding IFRS 16 Leases)

**-26,3c**

2019: 613,4c (-104%)

DIVIDENDS  
DECLARED  
PER SHARE

**153,0c**

2019: 366,4c (-58%)



# COMMENTARY



The group recently celebrated its 35th anniversary in August, which is testament to the continued support from guests, shareholders, management, employees and other stakeholders in helping to build a South African icon in the hospitality industry over the years. In contrast, this year has also been one of the most challenging years in the group's history, due to the impact of the COVID-19 pandemic on the global and local economies and, the travel and hospitality industry.

Average occupancies for the group in the 12 months to 30 June 2020, declined from 55% in the previous financial year to 38%. In South Africa, occupancies decreased from 58% in the previous financial year to 41%, which is a further 16 percentage point decline from the occupancy for the six months to 31 December 2019. The operating environment in South Africa was impacted by persistent negative growth, and low business and consumer confidence which contributed to the Moody's rating agency downgrade of South Africa to 'Junk' status in late March and to the marginally lower occupancy levels in the first three quarters of the financial year. However, the restricted operational and economic environment arising from the COVID-19 pandemic, and following the declaration of the National State of Disaster on 15 March 2020, had a significant adverse impact on the group's results 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 the commencement of strict lockdown protocols in South Africa on 27 March 2020. Similar lockdown protocols were followed shortly thereafter in the other African countries where the group operates. These measures resulted in the temporary closure of almost all of the group's 62 hotels, except for those hotels which remained open on a limited basis providing quarantine facilities to repatriated citizens, and hotels providing support

to government authorities and essential and critical business continuity services. The easing of lockdown measures has resulted in the gradual re-opening of approximately 32 hotels across South Africa and rest of Africa operations based on demand.

Total revenue decreased by 25% to R1,16 billion, while operating costs excluding depreciation decreased by 24%. Excluding the implementation of IFRS 16 Leases, the reported operating costs decreased by 11%. The operating cost reductions are mainly due to the cost containment measures put in place from April, to mitigate the extent of the losses arising from minimal revenues. Excluding the effects of IFRS 16 Leases, normalised headline EBITDA margin decreased by 12 percentage points to 20%.

Depreciation and amortisation on owned assets increased by 12,0%, while a depreciation charge for right-of-use assets of R92,3 million was raised for the first time. Interest expense rose by R29,9 million to R34,6 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 R117,2 million has now been raised in relation to the lease liabilities for the first time.

The group incurred a net loss of R486,6 million (2019: profit of R205,5 million). This is primarily due to exceptional losses of R344,6 million (2019: Nil), net of tax, related to the impairment of property, plant and equipment along with right-of-use assets of some hotels. The impairment of deferred tax assets of R47,1 million (2019: Nil) together with the recognition of IFRS 16 Leases interest expense, and depreciation net of previously recognised lease expenses of R67,4 million, net of tax, contributed to the loss. 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 had a material impact on discount rates applied across the portfolio.

# COMMENTARY CONTINUED

Normalised headline earnings decreased by 130% to a loss of R78,8 million, and excluding the effects of IFRS 16 *Leases* normalised headline earnings decreased by 104% to a loss of R11,4 million. Diluted normalised HEPS decreased by 130% to a loss of 181,1 cents. Excluding the effects of IFRS 16 *Leases*, normalised HEPS decreased by 104% to a loss of 26,3 cents.

## Development activity

### South Africa

Construction at Courtyard Hotel Waterfall City has resumed following lockdown and is progressing well. We anticipate a four-month delay compared to original pre-COVID 19 estimates, with an anticipated opening of all 168 rooms in March/April 2021.

The roll-out of solar power generation capabilities at 25 of the group's hotels was completed during the first half of the year. These systems will generate sufficient energy to supply approximately 30% of the individual hotel's energy demands, and will lower the group's total energy consumption from non-renewable sources by approximately 10%, further reducing its overall carbon footprint.

### Southern Africa

The 148-room City Lodge Hotel Maputo opened its first 68 rooms in the second week of February, with a further 54 rooms becoming available in March. The completion of the remaining rooms has been put on hold due to the impact of lockdown on trading operations. The completion of City Lodge Hotel Maputo will bring to an end the current phase of the group's targeted expansion strategy in Southern and East Africa.

On completion of Courtyard Hotel Waterfall City and City Lodge Hotel Maputo, the group will offer 8 070 rooms at 63 hotels.

## Outlook

With the continued support of our shareholders, City Lodge has successfully raised proceeds of R1,2 billion through a fully subscribed rights offer which closed on 21 August 2020. The rights offer serves to support the group's long-term viability and continued growth

during the uncertainty arising from COVID-19 pandemic.

The board intends to use the net proceeds of the rights offer to repay a 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 relaxed. The proceeds are expected to support the working capital requirements until the group reaches break-even EBITDA levels, which are anticipated to be in the last quarter of the 2021 financial year.

South African operations occupancies in the last quarter of 2020 were constrained to 4%. There has been some marginal improvement in July occupancies to 7%, following the easing of lockdown level 3 regulations, which allowed for intra-provincial leisure and domestic business air travel to resume. August occupancies of 10% of total room inventory have benefitted from South Africa moving to lockdown level 2 from mid-August. Occupancies based on the trading hotels are approximately double the total inventory occupancy percentages.

The next year will remain challenging as we continue to bear the impact of the prolonged lockdown measures across the South African and remaining African economies. We, however, welcome the recent announcement by President Cyril Ramaphosa to move the country to Level 2 of the COVID-19 Risk Adjusted Strategy, which includes the opening of most industries and the resumption of inter-provincial leisure travel.

The group's hotels remain ready and flexible to open at short notice based on guest demand, while ensuring strict adherence to our industry leading hygiene and safety protocols to ensure the safety and well-being of our guests and staff. City Lodge Hotel Group looks forward to welcoming you back. #Welcomeback.

## City Lodge Hotel Group

Group preliminary results for the year ended 30 June 2020

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R000	Note	(Reviewed)	(Audited)
		Year ended 30 June 2020	Year ended 30 June 2019
		% Change	
<b>Revenue</b>	8	<b>1 159 283</b>	1 547 984
Other income		<b>4 829</b>	4 475
Administration and marketing costs		<b>(97 314)</b>	(106 432)
BEE transaction charges		<b>(288)</b>	(352)
Expected credit loss on trade and other receivables		<b>(268)</b>	(2 198)
Operating costs excluding depreciation		<b>(735 414)</b>	(961 422)
<b>Results from operating activities before depreciation and amortisation</b>		<b>330 828</b>	482 055
Depreciation and amortisation		<b>(131 156)</b>	(117 471)
Depreciation – leases	3	<b>(92 302)</b>	–
<b>Results from operating activities</b>		<b>107 370</b>	364 584
Impairment loss on property, plant and equipment	5	<b>(245 464)</b>	–
Impairment loss on right-of-use assets	5	<b>(242 889)</b>	–
Interest income		<b>2 480</b>	2 233
Total interest expense		<b>(204 212)</b>	(59 842)
Interest expense <sup>1</sup>		<b>(34 569)</b>	(4 650)
Interest expense – leases	3	<b>(117 214)</b>	–
BEE interest expense		<b>(4 060)</b>	(4 187)
BEE preference dividend		<b>(48 369)</b>	(51 005)
<b>(Loss)/profit before taxation</b>		<b>(582 715)</b>	306 975
Taxation		<b>96 083</b>	(101 519)
<b>(Loss)/profit for the year</b>		<b>(486 632)</b>	205 456
<b>Other comprehensive income items that are or may be reclassified to profit or loss</b>			
Foreign currency translation differences <sup>2</sup>		<b>52 128</b>	(2 397)
<b>Total comprehensive income for the year</b>		<b>(434 504)</b>	203 059
Basic earnings per share (cents)		<b>(1 329,4)</b>	562,0
Basic diluted earnings per share (cents)		<b>(1 329,4)</b>	560,7

<sup>1</sup> Interest expense for the year ended to 30 June 2020 increased due to a reduction in interest capitalised to hotels under construction of R26,2 million (2019: R48,2 million) following completion of those hotels.

<sup>2</sup> Foreign currency translation differences increased largely due to strengthening of the Tanzanian Shilling compared to the SA Rand.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R000	(Reviewed) 30 June 2020	(Audited) 30 June 2019
<b>ASSETS</b>		
<b>Non-current assets</b>	<b>3 617 316</b>	2 722 355
Property, plant and equipment	2 509 752	2 630 411
Right-of-use assets	985 014	–
Intangible assets and goodwill	57 422	55 358
Investments	800	800
Other investments	7 900	13 073
Deferred taxation	56 428	22 713
<b>Current assets</b>	<b>241 088</b>	303 373
Inventories	5 540	7 978
Trade receivables	18 877	77 369
Other receivables	137 602	128 468
Taxation	42 756	11 935
Other investments	7 900	6 577
Cash and cash equivalents	28 413	71 046
<b>Total assets</b>	<b>3 858 404</b>	3 025 728
<b>EQUITY</b>		
<b>Capital and reserves</b>	<b>568 316</b>	1 106 701
Share capital and premium	179 503	179 503
BEE investment and incentive scheme shares	(514 381)	(518 014)
Retained earnings	712 683	1 307 529
Other reserves	190 511	137 683
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>	<b>2 260 101</b>	1 701 435
Interest-bearing borrowings	750 000	660 000
BEE interest-bearing borrowings	–	44 120
BEE preference shares	–	355 000
BEE shareholder's loan	–	50 000
BEE B preference share dividend accrual	–	315 604
Lease liabilities	1 376 063	–
Other non-current liabilities	–	78 899
Deferred taxation	134 038	197 812
<b>Current liabilities</b>	<b>1 029 987</b>	217 592
Trade and other payables	170 336	217 592
Lease liabilities	12 377	–
BEE interest-bearing borrowings	44 120	–
BEE preference shares	349 300	–
BEE shareholder's loan	50 000	–
BEE B preference share dividend accrual	356 416	–
Bank overdraft	47 438	–
<b>Total liabilities</b>	<b>3 290 088</b>	1 919 027
<b>Total equity and liabilities</b>	<b>3 858 404</b>	3 025 728

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	(Reviewed) Year ended 30 June 2020	(Audited) Year ended 30 June 2019
R000		
Operating cash flow before working capital changes	264 004	461 479
Increase in working capital	9 254	31 288
Cash generated by operations	273 258	492 767
Interest received	2 914	2 233
Interest paid	(77 114)	(64 774)
Interest paid – leases	(117 214)	–
Taxation paid	(37 529)	(95 101)
Dividends paid	(108 214)	(160 100)
<b>Cash (outflow)/inflow from operating activities</b>	<b>(63 899)</b>	175 025
<b>Cash utilised in investing activities</b>	<b>(102 642)</b>	(371 965)
– investment to maintain operations	53 749	(71 785)
– investment to expand operations	49 035	(335 346)
– expenditure refundable on operating leases	–	35 554
– purchase of investment	–	(600)
– proceeds on disposal of property, plant and equipment	142	212
<b>Cash inflows from financing activities</b>	<b>66 355</b>	195 019
– repayment of lease liability	(15 005)	–
– purchase of incentive scheme shares	(2 940)	(2 381)
– increase in interest-bearing borrowings	90 000	210 000
– redemption of BEE preference shares	(5 700)	(12 600)
<b>Net decrease in cash and cash equivalents</b>	<b>(100 186)</b>	(1 921)
Cash and cash equivalents at beginning of the year	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	(2 727)	(430)
Effect of movements in exchange rates on cash held	6 265	(94)
<b>Cash and cash equivalents at end of the year</b>	<b>(19 025)</b>	71 046

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

RO00	Share capital and premium	BEE investment and incentive scheme shares	Other reserves	Retained earnings	Total
<b>Balance at 30 June 2018</b>	179 503	(524 984)	138 173	1 265 174	1 057 866
<b>Total comprehensive income for the year</b>	–	–	(2 397)	205 456	203 059
Profit for the year	–	–	–	205 456	205 456
<i>Other comprehensive income</i>					
Foreign currency translation differences	–	–	(2 397)	–	(2 397)
<b>Transactions with owners, recorded directly in equity</b>	–	6 970	1 907	(163 101)	(154 224)
Incentive scheme shares	–	6 970	(6 350)	(3 001)	(2 381)
Share compensation reserve	–	–	8 257	–	8 257
Dividends paid	–	–	–	(160 100)	(160 100)
Balance at 30 June 2019	179 503	(518 014)	137 683	1 307 529	1 106 701
<b>Total comprehensive income for the year</b>	–	–	52 128	(486 632)	(434 504)
Loss for the year	–	–	–	(486 632)	(486 632)
<i>Other comprehensive income</i>					
Foreign currency translation differences	–	–	52 128	–	52 128
<b>Transactions with owners, recorded directly in equity</b>	–	3 633	700	(108 214)	(103 881)
Incentive scheme shares	–	3 633	(6 573)	–	(2 940)
Share compensation reserve	–	–	7 273	–	7 273
Dividends paid	–	–	–	(108 214)	(108 214)
<b>Balance at 30 June 2020</b>	<b>179 503</b>	<b>(514 381)</b>	<b>190 511</b>	<b>712 683</b>	<b>568 316</b>

# SUPPLEMENTARY FINANCIAL INFORMATION

R000	(Reviewed) Year ended 30 June 2020	%	(Audited) Year ended 30 June 2019
		change	
<b>1.    <b>Headline earnings reconciliation</b></b>			
(Loss)/profit for the year	<b>(486 632)</b>		205 456
Profit on sale of property, plant and equipment	<b>(6)</b>		(170)
Impairment of property, plant and equipment and right-of-use assets	<b>488 353</b>		–
Taxation effect	<b>(143 797)</b>		48
<b>Headline earnings</b>	<b>(142 082)</b>	(169)	205 334
Number of shares in issue (000's)	<b>43 574</b>		43 574
Weighted average number of shares in issue for EPS calculation (000's)	<b>36 606</b>		36 555
Weighted average number of shares in issue for diluted EPS calculation (000's)	<b>36 606</b>		36 642
Headline earnings per share (cents)			
– undiluted	<b>(388,1)</b>	(169)	561,7
– fully diluted	<b>(388,1)</b>	(169)	560,4
<b>2.    <b>Net asset value per share (cents)</b></b>	<b>1 549,5</b>	(49)	3 017,3
<b>3.    <b>Net tangible asset value per share (cents)</b></b>	<b>1 393,0</b>	(51)	2 866,4

# SUPPLEMENTARY FINANCIAL INFORMATION

CONTINUED

R000	(Reviewed) Year ended 30 June 2020	%	(Audited) Year ended 30 June 2019
		change	
<b>4. Normalised headline earnings reconciliation</b>			
Headline earnings	(142 082)		205 334
BEE transaction charges	288		352
BEE interest on interest-bearing borrowings	4 060		4 187
Preference dividends paid/payable by the BEE entities	48 369		51 005
10th Anniversary Employee Share Trust transaction charges and DWT	(37)		(43)
IFRS 2 share-based payment charge for the 10th Anniversary Employee Share Trust	2 925		4 148
Reversal of impairment of other investment in Chase Bank Kenya (net of tax)			(9 403)
Pre-opening expenses write-off (net of tax)	7 688		11 487
<b>Normalised headline earnings</b>	<b>(78 789)</b>	(130)	267 067
Net effect on adoption of IFRS 16 Leases	67 358		-
Lease expense previously included in operating costs	(116 202)		-
Depreciation – leases	92 302		-
Interest expense – leases	117 214		-
Taxation effect	(25 956)		-
<b>Normalised headline earnings excluding IFRS 16 Leases</b>	<b>(11 431)</b>	(104)	267 067

R000	(Reviewed) Year ended 30 June 2020	%	(Audited) Year ended 30 June 2019
		change	
<b>5. Number of shares (000's)</b>			
<b>Number of shares in issue</b>	<b>36 677</b>		36 677
Weighted average number of shares in issue for EPS calculation	<b>36 606</b>		36 555
BEE shares treated as treasury shares	<b>6 390</b>		6 390
10th Anniversary Employee Share Trust treated as treasury shares	<b>507</b>		507
<b>Weighted average number of shares in issue for normalised EPS calculation</b>	<b>43 503</b>		43 452
Weighted average number of shares in issue for diluted EPS calculation	<b>36 606</b>		36 642
BEE shares treated as treasury shares	<b>6 390</b>		6 390
10th Anniversary Employee Share Trust treated as treasury shares	<b>507</b>		506
<b>Weighted average number of shares in issue for diluted normalised EPS calculation</b>	<b>43 503</b>		43 538
<b>6. Normalised headline earnings per share (cents)</b>			
– undiluted	<b>(181,1)</b>	(129)	614,6
– fully diluted	<b>(181,1)</b>	(130)	613,4
– undiluted excluding IFRS 16 Leases	<b>(26,3)</b>	(104)	614,6
– fully diluted excluding IFRS 16 Leases	<b>(26,3)</b>	(104)	613,4
<b>7. Dividend declared per share (cents)</b>	<b>153,0</b>	(58)	366,0
– interim	<b>153,0</b>		229,0
– final	<b>–</b>		137,0

# SUPPLEMENTARY FINANCIAL INFORMATION

CONTINUED

R000	(Reviewed) Year ended 30 June 2020	%	(Audited) Year ended 30 June 2019
		change	
<b>8. Dividend cover (times)</b>			
– calculated on normalised headline earnings excluding IFRS 16 Leases	(0,2)		1,7
<b>9. Normalised interest-bearing debt (excluding IFRS 16 Leases) to normalised equity (%)</b>	54,9		33,9
<b>10. Return on average normalised equity (%)</b>	(0,7)		14,0
<b>11. Net normalised asset value per share (cents)</b>	3 332	(25)	4 471
<b>12. Normalised interest-bearing debt (excluding IFRS 16 Leases) (R000)</b>			
Interest-bearing borrowings	750 000		660 000
Bank overdraft	47 438		–
<b>Normalised interest bearing debt (excluding IFRS 16 Leases)</b>	<b>797 438</b>	21	660 000
<b>13. Normalised equity reconciliation (R000)</b>			
Capital and reserves	568 316		1 106 701
BEE and 10th Anniversary Employee Share Trust treasury shares	504 729		504 729
Fair value of BEE – retained earnings	342 982		308 797
Fair value of 10th Anniversary Employee Share Trust – retained earnings	14 577		14 232
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	25 253		17 565
Other equity – BEE – other reserves	(26 941)		(26 941)
<b>Normalised equity</b>	<b>1 451 860</b>	(25)	1 948 027
<b>14. Normalised shares in issue ('000s)</b>			
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
<b>Normalised shares in issue</b>	<b>43 574</b>		43 574

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2020

## 1. Basis of preparation for the condensed consolidated financial statements

The condensed consolidated financial statements 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* as set out in note 3.

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.

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## 2. Review report of the independent auditor

These condensed consolidated financial statements for the year ended 30 June 2020 have been reviewed by KPMG Inc., who expressed an unmodified review conclusion.

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

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## 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 (defined as the parent entity (City Lodge Hotels Limited) and all its subsidiaries) being IFRS 16 *Leases*.

The group has applied IFRS 16 *Leases* 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.

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2020

## 3. Changes in significant accounting policies continued

### **IFRS 16 Leases**

IFRS 16 *Leases* 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 *Leases* 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 *Leases* 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 remeasurements 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 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.

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 or loss in the period in which the conditions that trigger those payments occurs.

### 3. Changes in significant accounting policies continued

#### IFRS 16 Leases continued

##### 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 Leases

On adoption of IFRS 16 Leases, 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.

R000	1 July 2019
Lease liability recognised	1 389 607
Accrued lease payments	(78 899)
<b>Right-of-use asset recognised under IFRS 16 Leases</b>	<b>1 310 708</b>

On adoption of IFRS 16 Leases, 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:

R000	2019
Operating lease commitments disclosed as at 30 June 2019	960 471
Discounting adjustments using the respective incremental borrowing rates	429 136
<b>Lease liability recognised under IFRS 16 Leases as at 1 July 2019</b>	<b>1 389 607</b>
Of which:	
Current lease liabilities	16 537
Non-current lease liabilities	1 373 070
	<b>1 389 607</b>

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

for the year ended 30 June 2020

### 3. Changes in significant accounting policies continued

#### IFRS 16 Leases continued

Impact for the year ended 30 June 2020

R000	30 June 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)	985 014	–
Lease liability	(1 388 440)	–

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

R000	Year ended 30 June 2020	Year ended 30 June 2019
Depreciation – leases	92 302	–
Impairment of right-of-use assets	242 889	–
Interest expense – leases	117 214	–
Lease-related expenses recognised due to the implementation of IFRS 16 Leases	452 405	–
Had the group accounted for leases under IAS 17 property rentals would have amounted to	(116 202)	(116 135)
Effect on profit before tax for the year had there been no change in the accounting policy	336 203	–

#### *Practical expedients applied by the group on transition*

The group applied the practical expedient per IFRS 16 Leases in that the IFRS 16 Leases 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.

In total, 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.

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

## 4. **Significant judgements and estimates** continued

### **Measurement of share-based payments**

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 R56,4 million deferred tax assets are considered recoverable as they relate to timing differences between asset depreciation and impairments, and wear and tear allowances and IFRS 16 treatment, and will be utilised against future taxable profits.

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## 5. Impairment of property, plant and equipment and right-of-use assets

During the year ended 30 June 2020, the group impaired property, plant and equipment by R245,5 million (2019: Rnil) and right-of-use assets by R242,9 million (2019: Rnil) 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 19,1% for Rest of Africa hotels. Management assumed a gradual increase in occupancy and a phased hotel reopening for the first quarter of 2021 financial year. Cash flows for the remainder of 2021, will remain constrained with the group assumed to reach break-even EBITDA levels in and around the last quarter of the 2021 financial year. 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.

	2020		
	Property, plant and equipment	Right-of-use asset	Total
R000			
South Africa	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:

R000	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

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

for the year ended 30 June 2020

## 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 or 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, excluding headline earnings and headline earnings per share, net asset value per share, net tangible asset value per share and dividends declared per share (all of which are covered by the independent auditor's review report) 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. The results do not take into account transactions in the BEE entities, share trust and any once-off transactions. The supplementary information 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 year under review at a point in time:

	<b>Year ended 30 June 2020</b>	Year ended 30 June 2019
R000		
Accommodation	<b>990 556</b>	1 341 538
Food and beverage	<b>154 316</b>	200 666
Other revenue	<b>14 411</b>	5 780
	<b>1 159 283</b>	1 547 984
<b>Primary geographical markets</b>		
South Africa	<b>1 047 348</b>	1 404 154
Rest of Africa	<b>111 935</b>	143 830

**1 159 283**

1 547 984

## 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.

### Year ended 30 June

R000	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
<b>Revenue</b>	<b>600 159</b>	805 992	<b>171 107</b>	219 638	<b>224 906</b>	312 385	<b>51 176</b>	66 139	<b>111 935</b>	143 830	<b>1 159 283</b>	1 547 984
Results from operating activities	<b>239 069</b>	400 025	<b>32 935</b>	81 134	<b>73 467</b>	145 872	<b>1 148</b>	13 273	<b>(239 249)</b>	(275 720)	<b>107 370</b>	364 584
Depreciation and amortisation	<b>20 853</b>	24 999	<b>8 991</b>	7 538	<b>11 410</b>	10 438	<b>3 524</b>	4 072	<b>86 378</b>	70 424	<b>131 156</b>	117 471
Depreciation – leases	-	-	-	-	-	-	-	-	<b>92 302</b>	-	<b>92 302</b>	-
<b>Adjusted EBITDA<sup>(A)</sup></b>	<b>259 922</b>	425 024	<b>41 926</b>	88 672	<b>84 877</b>	156 310	<b>4 672</b>	17 345	<b>(60 569)</b>	(205 296)	<b>330 828</b>	482 055
Land and hotel building rental <sup>(B)</sup>	-	-	-	-	-	-	-	-	<b>5 793</b>	116 135	<b>5 793</b>	116 135
<b>Adjusted EBITDAR<sup>(C)</sup></b>	<b>259 922</b>	425 024	<b>41 926</b>	88 672	<b>84 877</b>	156 310	<b>4 672</b>	17 345	<b>(54 776)</b>	(89 161)	<b>336 621</b>	598 190

### Geographical information

R000	South Africa		Rest of Africa		Total	
	2020	2019	2020	2019	2020	2019
<b>Revenue</b>	<b>1 047 348</b>	1 404 154	<b>111 935</b>	143 830	<b>1 159 283</b>	1 547 984
<b>Non-current assets – Property, plant and equipment</b>	<b>1 398 885</b>	1 436 111	<b>1 110 867</b>	1 194 300	<b>2 509 752</b>	2 630 411

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

for the year ended 30 June 2020

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<sup>(a)</sup> 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 R488,4 million which are recorded in the central office and other segment.

<sup>(b)</sup> 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.

<sup>(c)</sup> Adjusted EBITDAR represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation, impairment charges and rental.

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## 10. 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 July 2020 or later periods, which the group has not early adopted, would have a material impact on the group.

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## 11. Capital commitments

As at 30 June 2020, the directors had authorised a total of R127,4 million for maintenance and expansion capital items, of which R108,9 million is committed and is anticipated to be spent by 30 June 2021. R66,4 million of the committed capital expenditure has been contracted. Given the uncertainty created by the COVID-19 pandemic, the remaining R18.5 million of authorised spend has been put on hold.

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## 12. Contingent liabilities

The group has no significant contingent liabilities as at 30 June 2020.

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## 13. Subsequent events

In response to the impact of COVID-19 on revenues and occupancy, the group has embarked on strict cost containment initiatives 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 discounts, for the majority of the group's leased properties for three months mainly from April to June.
- **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 14 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 now 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.

The group has successfully raised equity of R1,2 billion through a rights offer, which completed on 21 August 2020. 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.

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#### **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 prolonged industry recovery period due to COVID-19 and to meet the liquidity, working capital and expenses requirements, including (among others):

- The successful consummation of a R1,2 billion rights offer.
  - Securing an additional R200 million Loan E secured revolving credit facility from our lenders until the rights offer was consummated.
  - Securing the waiver of the borrowing covenants for both the June 2020 and December 2020 measurement periods.
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#### **15. Going concern**

The continued downturn in the South African economy over the first nine months to March, further 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 the last three months of the 2020 financial year. The impact of COVID-19 will continue to have an adverse impact on the group's operations in the 2021 financial year. These pressures have adversely impacted the group's cash position and has triggered the recognition of 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 year ended 30 June 2020 of R486,6 million (2019: profit of R205,5 million) primarily due to negligible revenues in the last quarter, impairment losses on property, plant and equipment and right-of-use assets of R488,4 million, and deferred tax assets R47,1 million (2019: Rnil) and the recognition of IFRS 16 Leases interest expense and depreciation net of previously recognised lease expenses of R67,4 million, net of tax. As at 30 June 2020, the group has a net cash and cash equivalents overdraft of R19,0 million, and the current liabilities exceeded its current assets by R788,9 million relating primarily to financial commitments in respect of the BEE preference shares and accrued dividend liabilities and BEE interest-bearing borrowings amounting to R751,3 million which are due for repayment on 31 January 2021.

# NOTES TO REVIEWED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2020

The condensed consolidated financial statements for the year ended 30 June 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 resulting 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.
  - The group has also secured the waiver of the borrowing covenants for both the June 2020 and December 2020 measurement periods.
  - The group has successfully raised equity of R1,2 billion through a rights offer, which completed on 21 August 2020.
  - 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.
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## 16. Dividend

Having regard to the impact of COVID-19 on the group's operations and the minimal revenue earned since the declaration of national state of disaster in South Africa on the 15 March 2020, the board has determined that no final dividend shall be paid in respect of the year ended 30 June 2020, and does not intend to pay dividends in the short term. The declaration of future dividends remains subject to satisfying solvency and liquidity requirements.

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The JSE Link to the announcement is  
<https://senspdf.jse.co.za/documents/2020/jse/isse/CLH/ye2020.pdf>.

For and on behalf of the board

**Bulelani Ngcuka**  
*Chairman*

**Andrew Widegger**  
*Chief executive officer*

2 September 2020

# DEFINITIONS OF SUPPLEMENTARY FINANCIAL INFORMATION

## 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 IFRS 16 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.

## Net normalised asset value per share

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

## Normalised return on average normalised 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.

## Average normalised 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.

# ADMINISTRATION

## **City Lodge Hotels Limited**

Incorporated in the Republic of South Africa

Registration number: 1986/002864/06

Share code: CLH

ISIN: ZAE 000117792

## **Directors**

B T Ngcuka (Chairman), A Widegger (Chief executive officer)\*,

G G Huysamer, F W J Kilbourn, M S P Marutlulle, N Medupe,

S G Morris, D Nathoo\*, V M Rague†, L G Siddo\*

\*Executive †Kenyan

## **Transfer secretaries**

Computershare Investor Services Proprietary Limited

Rosebank Towers

15 Biermann Avenue

Rosebank, 2196

## **Company secretary**

M C van Heerden

## **Sponsor**

Nedbank Corporate and Investment Banking



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