TSOGO SUN HOTELS

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

Reviewed condensed consolidated financial statements for the year ended 31 March 2020

Commentary

REVIEW OF OPERATIONS

This marks the group's first set of annual results subsequent to the company's unbundling from Tsogo Sun Gaming Limited ("Tsogo Sun Gaming") and its listing on the main board of the Johannesburg Stock Exchange Limited ("JSE") on 12 June 2019. Trading during the first nine months of the financial year was impacted by the depressed local macro-economic environment with demand by corporate and leisure groups as well as the transient traveller showing little sign of recovery. The performance of the group's offshore division was equally disappointing due to declining corporate and leisure activity in Maputo, government austerity measures in Tanzania, a reduction in South African travel to Nigeria following the xenophobic attacks as well as a significant retraction in business confidence in Lusaka following proposed amendments to tax legislation. In addition to the decline in demand from corporate and leisure travellers, the Paradise Sun hotel in the Seychelles was temporarily closed following storm surges which caused damage to the common areas. The subsequent closure of the country's borders and those of its key markets, France and Germany, in response to the COVID-19 pandemic has meant that this hotel only traded for six months of the year.

Total income for the year of R4.5 billion (2019: R4.4 billion) ended 2% above the prior year with a 2% growth in hotel rooms' revenue and a 7% growth in food and beverage revenue offset by a 7% reduction in property rental income and a 7% reduction in other income. Revenues were favourably impacted in the third quarter following the successful conclusion of the fixed and variable leases over the three Sandton hotels with effect from 1 November 2019. These include the InterContinental Sandton Towers, Sandton Sun and Garden Court Sandton City, which together total 1 001 rooms and make up 5% of the group's total rooms' portfolio. In terms of the leases, which are similar to those between Tsogo Sun Hotels and Hospitality Property Fund Limited ("HPF"), 98% of hotel earnings after the deduction of management fees payable to the group, accrues to the hotel owners as rent. As a result, while the group consolidated the trading of these hotels on the income statement, the net impact on earnings before interest, income tax, depreciation, amortisation, long-term incentives and exceptional items ("Ebitda") is minimal. Excluding the impact of the Sandton hotels, revenue for the group's base portfolio declined by 3% for the year ended 31 March 2020.

COVID-19 had a marked impact on the group's fourth quarter trading with international demand retracting as early as the last week of February 2020. The initial international travel regulations imposed by the President on 15 March 2020 and finally, the total ban on inter-provincial travel announced on 23 March 2020 as part of the nationwide lockdown resulted in a material reduction in revenues for the month of March, which is normally a peak activity month for the group. The group's entire portfolio in South Africa,

Africa and the Seychelles has been deactivated with the exception of those hotels designated as quarantine facilities or as accommodation for essential service providers and persons awaiting repatriation.

Despite strict cost controls during the year to counteract the above-inflationary increases in administered costs including property rates and utilities, the shortfall in revenue as a result of the decline in demand which was further exacerbated by the COVID-19 pandemic has meant that earnings before interest, income tax, depreciation, amortisation, property rentals, long-term incentives and exceptional items ("Ebitdar") of R1.4 billion (2019: R1.5 billion) ended 9% down on the prior year. Excluding the impact of the Sandton hotels, Ebitdar for the group's base portfolio declined by 12% for the year ended 31 March 2020. The overall group Ebitdar margin of 30% has declined by 4 percentage points ("pp") from the prior year.

Trading for the group's South African hotels for the year recorded system-wide revenue per available room ("RevPar") flat on the prior year due to a 1% increase in average room rates to R1 105 offset by a 1.1pp decrease in occupancies from the prior year to 62.4% (2019: 63.5%).

The management activities of the South African hotels net of group corporate office costs (including HPF central costs) generated Ebitdar of R154 million (2019: R171 million) for the year, a 10% decrease on the prior year. This performance results from a R23 million decrease in management fee income due to the disappointing performance from the Sandton hotels and Convention Centre as well as the Tsogo Sun Gaming hotels; offset by a R6 million saving in corporate office costs. The segment's Ebitdar margin decreased by 1pp from the prior year to 58% (2019: 59%).

Rental income from the 12 externally managed hotel properties owned by HPF of R310 million (2019: R337 million) declined by R27 million from the prior year. This is largely due to the performance of the Birchwood Hotel which saw rental income decline by R12 million compared to the prior year. Given the portfolio's weighting towards the Cape Town and Gauteng markets and the decline in demand from the international, corporate and leisure segments compounded by the impact of COVID-19, the balance of the portfolio also performed poorly particularly in the fourth quarter of the year.

Overall, revenue for the South African hotel portfolio owned and leased by the group ended 5% above the prior year at R3.5 billion (2019: R3.3 billion), however excluding the impact of the Sandton hotels, revenue ended 1% below the prior year. The Cape region benefited from government and associated business from the State of the Nation Address in June 2019 as well as international group and associated business relating to the World Economic Forum. The KwaZulu-Natal, Inland and Other segments have struggled in the first nine months of the year largely due to a lack of government and corporate business as well as a decline in groups and conferencing due to a lack of large events at the Durban International Convention Centre. All regions were severely affected by the impact of COVID-19 in the fourth quarter, which is traditionally a peak trading period for the group. Despite strict cost controls, the shortfall in revenue has resulted in the Ebitdar for the internally managed segment decreasing by 6% on the prior year to R787 million (2019: R839 million) at a margin of 22% (2019: 25%). Excluding the Sandton hotels, Ebitdar for the internally managed segment declined by 12%.

Total income for the offshore division of hotels of R569 million (2019: R605 million), declined by 6% from the prior year. This was exacerbated by the closure of Southern Sun Mayfair, Nairobi on 31 January 2020, following the end of the property lease period. Once-off closure costs (including termination benefits) of R8 million were incurred by the group and included in exceptional items as restructuring costs. In US Dollar terms, revenue for the year declined by 14% compared to the prior year, offset by the favourable impact of the weakening of the Rand against the US Dollar. Ebitdar (pre-foreign exchange gains/losses) declined by 24% to R105 million (2019: R138 million). Foreign exchange losses of R4 million (2019: gains of R6 million) were incurred on the translation of offshore monetary items, principally between local country currencies and the US Dollar.

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

For the year ended 31 March	**2020**	2019
Occupancy (%)	**59.3**	60.6
Average room rate (R)	**1 090**	1 064
RevPar (R)	**647**	645
Rooms available ('000)	**4 314**	4 239
Rooms sold ('000)	**2 560**	2 568
Rooms revenue (Rm)	**2 791**	2 732

In order to provide shareholders with meaningful, like-for-like analysis of the group's performance for the year after reported Ebitdar, the *pro forma* financial information as set out in Annexure 3 of the company's pre-listing statement issued to shareholders on 23 May 2019 has been used as the comparative set of results. Shareholders are referred to Annexure 4 of the pre-listing statement for the reporting accountants' report on the *pro forma* financial information. Digital copies of the pre-listing statement can be found on the group's website at **https://www.tsogosun.com/investors/circulars/2019.**

SUPPLEMENTARY INFORMATION

For the year ended 31 March	% Change on *pro forma*	**2020 Reviewed Rm**	2019 *Pro forma* Rm	2019 Audited Rm
Ebitdar	(9)	**1 352**	1 488	1 491
Exceptional losses, net of gains				
Headline adjustments		**(1 623)**	(542)	(542)
Loss on disposal of property, plant and equipment		**(2)**	(3)	(3)
Impairment of property, plant and equipment		**(716)**	(94)	(94)
Impairment relating to RBH (Associate)		**(17)**	–	–
Fair value adjustment on investment properties		**(888)**	(445)	(445)
Other adjustments		**(46)**	(39)	(39)
Fair value adjustments on interest rate swaps		**–**	2	2
Pre-opening costs		**–**	(1)	(1)
Impairment of inventory		**(2)**	–	–
Fair value adjustment on RDI investment		**(1)**	–	–
Restructuring costs (including termination benefits)		**(40)**	(8)	(8)
Transaction costs		**(3)**	(32)	(32)
Ebitdar post exceptional items	*	**(317)**	907	910
Property rentals		**(84)**	(208)	(208)
Property rentals		**(210)**	(208)	(208)
Property rentals – IFRS 16		**126**	–	–
Amortisation and depreciation		**(348)**	(306)	(306)
Amortisation and depreciation		**(289)**	(306)	(306)
Amortisation and depreciation – IFRS 16		**(59)**	–	–
Long-term incentive expense		**(17)**	(13)	(4)
Operating (loss)/profit		**(766)**	380	392
Finance income		**40**	38	38
Finance costs		**(400)**	(269)	(455)
Finance costs		**(299)**	(269)	(455)
Finance costs – IFRS 16		**(101)**	–	–
Share of (loss)/profit of associates and joint ventures		**(3)**	15	15
(Loss)/profit before income tax	*	**(1 129)**	164	(10)
Income tax expense		**(96)**	(118)	(70)
(Loss)/profit for the period		**(1 225)**	46	(80)
(Loss)/profit attributable to:				
Equity holders of the company		**(896)**	28	(98)
Non-controlling interests		**(329)**	18	18
		(1 225)	46	(80)

* *Percentage change greater than 100%.*

SUPPLEMENTARY INFORMATION continued

For the year ended 31 March	% Change on *pro forma*	**2020 Reviewed Rm**	2019 *pro forma* Rm	2019 Audited Rm
Reconciliation of earnings attributable to equity holders of the company to headline earnings and adjusted headline earnings				
(Loss)/profit attributable to equity holders of the company	*	**(896)**	28	(98)
Loss on disposal of plant and equipment		**2**	3	3
Impairment of property, plant and equipment		**716**	94	94
Fair value adjustment on investment properties		**888**	445	445
Impairment relating to RBH (Associate)		**17**	–	–
Share of associates' headline earnings adjustment		**41**	10	10
Total tax effect of adjustments		**(52)**	(27)	(27)
Total non-controlling interest effects of adjustments		**(500)**	(182)	(182)
Headline earnings	(42)	**216**	371	245
Fair value adjustment on interest rate swaps		**–**	(2)	(2)
Pre-opening expenses		**–**	1	1
Restructuring costs (including termination benefits)		**40**	8	8
Transaction costs		**3**	32	32
Impairment of inventory		**2**	–	–
Fair value adjustment on RDI investment		**1**	–	–
Derecognition of Southern Sun Maputo deferred tax		**30**	–	–
Total tax effects of other exceptional items		**(11)**	1	1
Total non-controlling interest effects of other exceptional items		**(4)**	(7)	(7)
Share of associates' exceptional items		**1**	(1)	(1)
Adjusted headline earnings	(31)	**278**	403	277
Weighted average number of shares in issue (million)		**1 061**	1 061	
Diluted weighted average number of shares in issue (million)		**1 060**	1 064	
Basic and diluted (loss)/earnings per share (cents)	*	**(84.5)**	2.6	
Basic and diluted headline earnings per share (cents)	(41)	**20.4**	34.8	
Basic and diluted adjusted headline earnings per share (cents)	(31)	**26.2**	37.9	

* *Percentage change greater than 100%.*

Property rentals (excluding IFRS 16 adjustments) at R210 million (2019: R208 million) are 1% up on the prior year. Amortisation and depreciation (excluding IFRS 16 adjustments) at R289 million (2019: R306 million) is 6% down on the prior year due mainly to year end residual value adjustments on the HPF property portfolio which is recognised as property, plant and equipment on a group level. The net pre-tax impact of IFRS 16 on the group's income statement is a R34 million expense, with the majority of the adjustment relating to the leases over the SunSquare and StayEasy City Bowl, the Garden Court Marine Parade and the Sandton hotels.

The long-term incentive expense in the income statement on the equity-settled incentive scheme of R17 million is R4 million up on the prior year *pro forma* charge of R13 million. The variance on the prior year is as a result of aligning the expense to the new equity-settled scheme which values the share-based payment (including dividend adjustments) by reference to the company's share price which is adjusted for management's best estimate of the appreciation units expected to vest and future performance of the group. The long-term incentive expense will increase by new grants made to employees and decrease by employee forfeitures.

Exceptional losses for the year of R1.7 billion (2019: R581 million) relate mainly to fair value losses on the revaluation of externally managed investment properties in HPF of R888 million (2019: R445 million), property, plant and equipment impairments of hotels in South Africa and offshore totalling R716 million (2019: R94 million), restructuring costs of R40 million (2019: R8 million) which includes the termination benefits of R8 million for the closure of Southern Sun Nairobi and retrenchment costs relating to the unbundling, as well as the impairment of the group's investment in RBH Hotels UK Limited of R17 million (2019: Rnil). The majority of the quantum of these impairments are due to management's assessment of the negative impact of COVID-19 on forecast cash flows generated by the underlying hotels for the financial years ending March 2021 and March 2022 as well as volatility in the bond market and increased in-country risk assessments that have had a material impact on discount rates across the portfolio. In South Africa in particular, the risk posed by the COVID-19 pandemic compounded by the ratings downgrade, saw the 10Y bond yield increasing by 1.9% from 31 March 2019 (8.61%) to 31 March 2020 (10.51%).

Finance costs (excluding IFRS 16 adjustments) of R299 million are R30 million above the prior year *pro forma* finance costs of R269 million due to the increase in debt to fund expansion and replacement capex including major hotel refurbishments during the year.

The share of loss of associates and joint ventures of R3 million (2019: R15 million profit) declined by R18 million on the prior year mainly due to fair value losses on investment properties owned by International Hotel Properties Limited.

The effective tax rate for the year of 11.0% excludes the group's share of losses of associates and joint ventures and is impacted by the non-deductibility of fair value losses on investment property in HPF, the pre-tax profits attributable to the HPF non-controlling interests due to its real estate investment trust ("REIT") tax status and the offshore tax rate differentials. The effective tax rate for the prior *pro forma* period was impacted by the non-deductibility of the fair value adjustment in HPF due to its REIT status.

Losses attributable to non-controlling interests of R329 million (2019: R18 million profit) increased by R347 million from the prior *pro forma* year mainly due to the share of the R888 million fair value loss on investment property in HPF.

Group adjusted headline earnings for the year at R278 million (2019: R403 million) ended 31% down on the prior *pro forma* year. The adjustments to the current year includes the reversal of the post-tax and non-controlling interest impacts of the exceptional losses noted above. The number of shares in issue remained flat on the prior comparative *pro forma* year and the resultant adjusted headline earnings per share is 31% down on the prior *pro forma* year at 26.2 cents (2019: 37.9 cents).

Cash generated from operations for the year of R623 million (2019: R524 million) increased by R99 million on the prior year due mainly to the saving of finance costs on the treasury loan with Tsogo Sun Gaming. Cash flows utilised for investment activities of R537 million (2019: R444 million) consisted mainly of maintenance capital expenditure of R366 million group-wide, including major hotel refurbishments at the Westin for R70 million and the Southern Sun Ridgeway in Lusaka for R73 million as well as the acquisition of the Southern Sun Pretoria.

Interest-bearing debt net of cash at 31 March 2020 totalled R3.3 billion, which is R289 million above the 31 March 2019 balance of R3.0 billion, with R245 million (2019: R291 million) paid in dividends to non-controlling interests in HPF in addition to the spend on investment activities during the period.

FUNDING CAPACITY AND COVENANTS

The group's liquidity and access to facilities are of paramount importance and as at 31 March 2020 the group was well within lender covenant requirements:

- Tsogo Sun Hotels' leverage ratio (net debt to Ebitda) is 1.3 times against a maximum covenant requirement of no more than 2.5 times;
- Tsogo Sun Hotels' interest cover ratio is 12.2 times against a minimum covenant requirement of at least 3 times;
- HPF's leverage ratio (net debt to Ebitda) is 3.2 times against a maximum covenant requirement of no more than 3.5 times; and
- HPF's interest cover ratio is 3.7 times against a minimum covenant requirement of at least 2 times.

Lenders to both Tsogo Sun Hotels and HPF have approved the waiver of the September 2020 covenants, securing the group's access to sufficient short-term liquidity facilities, taking into account the COVID-19 status and action plan described below. Shareholders are referred to the "subsequent events" note 12 for further discussions on group facilities and covenant waivers.

COVID-19 STATUS AND ACTION PLAN

Since the implementation of the national lockdown on 27 March 2020, the group has been in close communication with its lenders, employees, trading partners, suppliers, tenants and landlords in order to arrive at mutually sustainable operating solutions in these extraordinarily difficult times. The group has implemented the following steps to reduce costs and preserve cash:

- **Reduction of payroll burden:** The group has implemented the temporary layoff of employees and has had to materially reduce pay for all levels including executive management and board members. The group will continue to operate on skeleton staffing levels until demand returns. In addition, employee recruitments and training have been placed on hold while salary increases and accrued bonus settlements have been deferred. In order to alleviate the cash flow burden on both the company and its employees, applications have been submitted for the UIF TERS grant; pension and medical aid fund contribution holidays for a period of three months; SDL payment holidays; as well as PAYE payment deferrals.
- **Rent relief:** The group is seeking rent relief with landlords for the period of the lockdown and subsequent low demand periods and negotiations in this regard continue.
- **Suppliers:** The group has negotiated reduced or extended payment terms with major suppliers, particularly those providing fixed cost services such as security and lift maintenance. Municipal rates and taxes are a material fixed monthly cost for the group and while we currently continue to meet these obligations, we are lobbying government through industry bodies to grant a deferral or payment holiday. Contractual variable costs with suppliers have been reduced to nil until trading resumes by extending the period of the contracts.

Inter-provincial travel is vital for the hotel industry, and the group has been actively lobbying through industry bodies for the earliest relaxation of travel restrictions, so that we can begin to reopen our hotels.

Management is currently formulating a plan for the phased reopening of its portfolio with hotels identified to resume operations as soon as we are allowed to and those that will open thereafter based on anticipated demand. The remaining hotels are not expected to be reactivated for an extended period of time, which are generally those that are reliant on international inbound travel and significant groups and conferencing business. As a result of the extended delay to opening the expected social distancing regulations and restrictions on group gatherings, affected hotels are likely to be operationally restructured.

In anticipation of the reactivation the group has a number of health protocols and control measures to safeguard our employees and guests including employee training, personal protective equipment and hygiene resources, social distancing and screening of guests as well as increased sanitation and hygiene processes.

GOING CONCERN

The condensed consolidated financial statements are prepared on the going concern basis. Based on the cash flow forecasts, available cash resources and the other measures the group has taken or plans to take as detailed above, management believes that the group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner.

As at 31 March 2020, the group has net cash and cash equivalents of R722 million (2019: R212 million). The group has R4.0 billion (2019: R3.2 billion) of interest-bearing debt (excluding capitalised lease liabilities) and access to sufficient undrawn short-term facilities to meet its obligations as they become due.

In preparing the cash flow forecasts utilised to assess going concern, the impact of the COVID-19 pandemic on the group's operations and liquidity was considered. The board of directors of the company ("directors") has assessed the cash flow forecasts together with the other actions taken or proposed by management and is of the view that the group has sufficient liquidity to meet its obligations and to counteract the expected losses that may result from the COVID-19 impact on the group's operations in the next financial year.

PROSPECTS

This financial year has been one of highs, with the group celebrating its 50th anniversary and the separate listing of Tsogo Sun Hotels on the Johannesburg Stock Exchange. A short nine months later, the group experienced the low of having to deactivate the vast majority of its hotels. While the group supports government's efforts to safeguard the health of citizens, the prolonged lockdown has had and will continue to have a devastating impact on the South African economy in general and the southern African travel and tourism industry and its employees in particular. No industry can survive extended periods without revenue. We welcome the recent announcement by President Ramaphosa of the move to level 3 and appeal to government to continue to open the economy as quickly as possible, with due regard for safety.

DIVIDEND

As outlined in the pre-listing statement, the group had intended to apply cash resources generated during the initial 15 months post the listing towards the settlement of the offshore division's Dollar denominated interest-bearing debt. Given the anticipated extended period of minimal revenue, the directors considered it prudent to retain cash resources in order to ensure that the group is able to navigate this difficult period until trading resumes. Accordingly, the directors have not declared a final cash dividend for the year ended 31 March 2020.

SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance arising since the balance sheet date and the date of this report other than the matters disclosed in note 12 of these condensed consolidated financial statements, all of which are non-adjusting events and have no impact on the financial results for the year ended 31 March 2020.

PRESENTATION

Shareholders are advised that a presentation to analysts and investors which provides additional analysis and commentary will be available on the group's website at **https://www.tsogosun.com/investors/results-presentations/2020.** Any questions on the presentation can be e-mailed to **companysecretaryTGO@tsogosun.com.**

M von Aulock	**L McDonald**
Chief Executive Officer	Chief Financial Officer
29 May 2020	

Independent auditor's review report on condensed consolidated financial statements

TO THE SHAREHOLDERS OF TSOGO SUN HOTELS LIMITED

We have reviewed the condensed consolidated financial statements of Tsogo Sun Hotels Limited, set out on pages 11 to 32 of the provisional report, which comprise the condensed consolidated balance sheet as at 31 March 2020 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the year then ended, and selected explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in note 1 to the financial statements, and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express a conclusion on these financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410, which applies to a review of historical financial information performed by the independent auditor of the entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements of Tsogo Sun Hotels Limited for the year ended 31 March 2020 are not prepared, in all material respects, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in note 1 to the financial statements, and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Pietro Calicchio
Registered Auditor
Johannesburg
29 May 2020

Notes to the reviewed condensed consolidated financial statements

for the year ended 31 March

1 BASIS OF PREPARATION

The condensed consolidated financial statements for the year ended 31 March 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34 *Interim Financial Reporting,* the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council ("FRSC"), the Listings Requirements of the JSE Limited and the requirements of the Companies Act of South Africa. Chief Financial Officer, L McDonald CA(SA), supervised the preparation of these condensed consolidated financial statements. The accounting policies are consistent with IFRS as well as those applied in the pre-listing statement as at 31 March 2019 other than as described in note 2. The condensed consolidated financial statements should be read in conjunction with the pre-listing statement for the year ended 31 March 2019, which have been prepared in accordance with IFRS. These condensed consolidated financial statements for the year ended 31 March 2020 have been reviewed by PricewaterhouseCoopers Inc., and their unmodified review conclusion is included on page 10.

2 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

2.1 New and amended standards adopted by the group

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

The adoption of IFRS 16 was applied retrospectively without restating comparative figures. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019 as an adjustment to the opening balance of retained earnings at the date of initial application. The net impact on retained earnings at 1 April 2019 was a decrease of R63 million and is discussed below. No other pronouncements had any material impact on the group.

2.2 IFRS 16 *Leases*

2.2.1 Where the group is a lessee

Adjustments recognised on adoption of IFRS 16

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

In the 30 September 2019 interim results, the group reported right-of-use assets and lease liabilities at transition date of 1 April 2019 as R673 million and R950 million respectively. Due to the refinement of the discount rate, the right-of-use assets and lease liabilities at 1 April 2019 have been adjusted to R690 million and R957 million respectively. The resulting impact on earnings for the six-month period to 30 September 2019 was not material.

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

	31 March 2020 Rm	1 April 2019 Rm
Property	**799**	690
Right-of-use assets recognised under IFRS 16	**799**	690

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the respective incremental borrowing rate as of 1 April 2019. The group's respective weighted average incremental borrowing rates applied to the lease liabilities on 1 April 2019 ranged between 9.75% and 10.25%.

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

	Rm
Outstanding commitments at 31 March 2019 under IAS 17, undiscounted	**1 951**
Discounting adjustment using the respective incremental borrowing rates mentioned above	**(973)**
Outstanding commitments at 31 March 2019 under IAS 17, discounted	**978**
Less: Leases not capitalised	
Short-term leases	**(18)**
Low value leases	**(3)**
Lease liability recognised under IFRS 16 as at 1 April 2019	**957**
Analysed as:	
Non-current portion	**943**
Current portion	**14**
	957

	Rm
Other balance sheet impacts are:	
Retained earnings decrease	**63**
Deferred tax assets increase	**268**
Deferred tax liabilities increase	**(245)**
Straight-lining provision decreased	**186**

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

	2020 Reviewed Rm
Depreciation charge of right-of-use assets – Property	**(59)**
Interest expense (included in finance cost)	**(101)**
Also, property rentals reduced by	**126**

Effective 1 October 2019, the group entered into an agreement with Ozmik Property Investments Proprietary Limited, to acquire the Southern Sun Pretoria hotel building for R200 million. The Southern Sun Pretoria hotel was operated by the group and the property leased, as such this property was included in the scope of IFRS 16 and the lease liability that was raised on transition has now been settled. The building acquired has been recognised in property, plant and equipment.

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

Practical expedients applied by the group on transition

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

The group's accounting for leases under IFRS 16

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

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

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

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

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

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

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The group excludes the initial direct costs related to the lease initiation upon recognition of the right-of-use asset.

Variable lease payments

Variable lease payments included in other operating expenses

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

Modification of a lease

When the group modifies the terms of a 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.

When the group modifies the terms of a lease resulting in an increase in scope, the group accounts for these modifications as a separate new lease. The accounting treatment is when the lease term for an existing lease is subsequently modified.

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

Determining the respective discount rates

In determining the respective discount rates, management has considered the group borrowing rate as a base rate and made adjustments to the rate based on the type of asset, the term of the lease and factors specific to the lessee company and the economic environment in which the asset is leased. The rate that the respective entity may have recently obtained on funding for a similar asset and over a similar term will also be considered in the adjustments made to the rate.

The discount rates applied to the lease commitments range from 9.75% to 10.25%, due to the multiple jurisdictions within which the group operates.

Determining the lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The extension options (or periods after termination options) have been considered and where certain, have been included in the lease term. There are no potential future cash outflows. All future cash outflows have been included in the lease liability. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Determining the low-value leases

In determining the low-value leases, management assessed the value of the underlying individual assets at the original date of acquisition and whether they would individually have a material impact on the balance sheet. Low-value assets comprise IT equipment and small items of office furniture.

Sandton Hotels lease agreement

During the year under review the group entered into a new arrangement effective 1 November 2019 with the owners of the Sandton Sun, Garden Court Sandton City and the InterContinental Sandton Towers (the "Sandton Hotels"). The group classified this arrangement as a lease contract and accounted for it in terms of the requirements of IFRS 16. Significant judgement was applied regarding the assessment of economic benefits between the different parties, and control over the relevant activities, being the day-to-day operations of the hotels.

In exercising our judgement the following facts were considered:

- On the face of it the agreements entered into provide for 98% of Ebitdar after management fees to flow to the lessors, however, where the lessee directs all cash flow generated from the asset and pays the lessor a percentage of such flows, paragraph B23 of IFRS 16 provides for such cash flows to be included in the benefit received by the lessee.
- The group has sole use of the hotels and brands.

- The group retains the majority of turnover and the return made by the group on these hotels is consistent with owner-managed hotels.
- The group has downside risk in the event of an economic downturn as a minimum basic rental is still payable.
- The key differences between the previous management agreements and the current agreements is that the group now has the ability to direct the relevant activities of the hotels because the group makes decisions on the pricing of the hotel services, engages with suppliers and distribution channels as well as managing the costs of the hotel.

Based on the above, the hotel lease agreements in our assessment do contain a lease. The group used a 20% minimum rental as stipulated in the agreements to calculate the lease liability and right-of-use asset. The remaining lease payments based on a percentage Ebitdar are considered to be variable lease payments. The discount rate applied has been determined in a manner that is consistent with that of the other leases within the group where IFRS 16 has been applied.

2.2.2 Where the group is a lessor

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

3 STANDARDS ISSUED NOT YET EFFECTIVE

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

4 FAIR VALUE MEASUREMENT

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

4.1 Investment properties

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

	2020 Reviewed Rm	2019 Audited Rm
Opening net carrying amount	**4 881**	5 101
Acquisition and development of investment properties	**160**	159
Disposals	**(4)**	–
Transfer of owner occupied property	**–**	66
Fair value adjustments recognised in profit or loss	**(888)**	(445)
Closing net carrying amount	**4 149**	4 881

Fair value measurement

The group's investment properties have been categorised as level 3 values based on the inputs to the valuation technique used. The group has elected to measure investment properties at fair value. The fair value is determined by using the discounted cash flow method by discounting the rental income (based on expected net cash flows of the underlying hotels) after considering the capital expenditure requirements. The expected cash flows are discounted using an appropriate discount rate. The core discount rate is calculated using the South African bond yield 10Y at the time of valuation, to which premiums are added for market risk and equity and debt costs. The discount rate takes into account a risk premium associated with the local economy as well as that specific to the local property market and the hotel industry. At 31 March 2020, the group's investment properties were independently valued by professionally qualified valuers having recent experience in the location and category of the group's investment property being valued. The valuation is currently performed on an annual basis on the entire portfolio of investment properties by an independent valuator.

The fair value has been determined using capitalised values of the projected rental income together with the assessment of development land. Vacancies have been considered based on the historical and current vacancy factors as well as the nature, location, size and popularity of the properties.

The impact of COVID-19 and the associated impact on the hospitality industry has had a significant impact on the fair value of hotels at 31 March 2020. Due to the uncertainty of future trading conditions, the forecasts reduced in year one with 75% and in year two with 25% when compared to actuals as at 31 March 2020. The South African bond yield 10Y increased by 1.9 percentage points from 31 March 2019 (8.61%) to 31 March 2020 (10.51%). HPF had used a risk-free rate of 8.65% in 2019, compared to 10.50% in 2020, resulting in higher exit yields and higher discount rates across the portfolio.

As at 31 March 2020 the significant unobservable inputs were as follows:

- A weighted average rental growth rate of 5.19% (2019: 5.25%);
- A terminal capitalisation rate of 9.00% – 13.50% (only five properties exceed 11.00%) (2019: 7.25% – 7.75%); and
- A risk-adjusted discount rate of 12.00% – 14.50% (only one property is lower than 13.00%) (2019: 12.50% – 13.00%).

Sensitivities

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

	2020		2019	
	Increase Rm	**Decrease Rm**	Increase Rm	Decrease Rm
5% change in the net cash flows	**203**	**(202)**	274	(247)
25bps change in the terminal capitalisation rate	**(55)**	**58**	(114)	123
50bps change in the discount rate	**(135)**	**143**	(91)	94

4.2 Interest rate swaps

Hedge accounting is applied to the group's interest rate swaps. The group's primary interest-rate risk arises from long-term borrowings (excluding bank overdrafts). In line with group policy, a portion of the group debt is hedged.

Fixed interest rate swaps ranged from 6.69% to 7.47% as at 31 March 2020 referenced against the three-month JIBAR of 5.61% (2019: Fixed interest rate swaps ranged from 7.16% to 7.42% as at 31 March 2019 referenced against the three-month JIBAR of 7.15%).

The fair value of the group's derivatives used for hedge accounting is a liability of R50 million (31 March 2019: Rnil) and is calculated as the present value of the estimated future cash flows based on observable yield curves, which is consistent with the prior year. As at 31 March 2020, the group's interest rate hedges have been assessed as effective.

5 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

During the year, the group impaired property, plant and equipment by R716 million (2019: R94 million*) as a consequence of the downward medium-term trading expectations due to the current economic environment which has been exacerbated by the global COVID-19 pandemic. The recoverable amount has been determined by calculating the value in use using a discounted cash flow model ("DCF"). The weighted average cost of capital ("WACC") utilised in the valuation was 14% for the South African hotels and range between 9% and 13.5% for the offshore properties. In order to reflect the cash flow impact of the total collapse in demand caused by the COVID-19 pandemic, management assumed a 96% reduction in revenue for the first six months of the 2021 financial year. Cash flows for the second half of 2021 and the first half of 2022 reflect a slow recovery in both occupancy and rate with the group's entire portfolio assumed to be fully operational by September 2022 and trading at similar levels achieved in the 2019 financial year. The annual growth rate applied to the cash flow forecasts for the 2023 to 2025 financial years ranged between 4.5% and 5.5%. The terminal growth rate applied for the offshore properties is 2.1% and 5% for the South African properties.

** The 2019 impairment charge, includes impairment of Southern Sun Ikoyi of R75 million due to tough local economic environments in the 2019 financial year*

The carrying values of land, buildings, plant and equipment of the following hotel properties were impaired during the year.

	2020 Rm
Garden Court Eastgate	**115**
Garden Court Hatfield	**86**
Stay Easy Eastgate	**63**
Southern Sun Rosebank	**35**
Holiday Inn Sandton	**40**
Southern Sun Ikoyi*	**172**
Southern Sun Dar-es Salaam	**84**
Southern Sun Maputo	**89**
Southern Sun Ridgeway	**32**
	716

** The 2019 impairment charge, includes impairment of Southern Sun Ikoyi of R75 million due to tough local economic environments in the 2019 financial year*

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

	Increase Rm	Decrease Rm
5% change in the net cash flows	**120**	**(120)**
25bps change in the terminal capitalisation rate	**50**	**(48)**
50bps change in the discount rate	**(133)**	**148**

6 CHANGES IN INTEREST-BEARING BORROWINGS ARISING FROM FINANCING ACTIVITIES

As at 31 March 2020 there were no breaches of lender covenant requirements by the group. Changes arising from financing activities for the year ended 31 March 2020 related to interest-bearing borrowings, excluding bank overdrafts from short-term borrowings, are as follows:

	Long term Rm	Short term Rm	Total Rm
Balance at 1 April 2019	**2 885**	**290**	**3 175**
Borrowings raised	**2 179**	**–**	**2 179**
Borrowings repaid	**(1 361)**	**(290)**	**(1 651)**
Currency translation	**268**	**–**	**268**
Other	**3**	**–**	**3**
Balance at 31 March 2020	**3 974**	**–**	**3 974**

	Long term Rm	Short term Rm	Total Rm
Balance at 1 April 2018	2 909	–	2 909
Borrowings raised	174	–	174
Borrowings repaid	(145)	–	(145)
Currency translation	229	–	229
Transfer to short-term borrowings	(290)	290	–
Other	8	–	8
Balance at 31 March 2019	2 885	290	3 175

The term of all long-term borrowings range between 2 to 5 years.

7 BUSINESS COMBINATIONS

Acquisition of Riverside Conference Centre

The group concluded an agreement with Riverside Conference Centre Proprietary Limited to acquire its conferencing business effective 1 May 2019. The fair value of the net asset acquired is equal to the fair value of the consideration paid at the date of acquisition. The total consideration payable in cash amounted to R8 million. The acquired business contributed R8 million to revenue for the year ended 31 March 2020.

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

No goodwill arose on the acquisition.

8 RELATED PARTY TRANSACTIONS

Listing and unbundling of Tsogo Sun Hotels

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

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

Southern Sun Hotel Interests Proprietary Limited ("SSHI") a subsidiary of Tsogo Sun Hotels Limited entered into a lease agreement with Tsogo Sun Casinos Proprietary Limited ("TSC") a subsidiary of Tsogo Sun Gaming Limited in respect of leased premises comprising 4 000m^2 of office space in Palazzo Towers East and Palazzo Towers West. The lease commenced on 1 April 2019 and shall continue for an indefinite term of years for a nominal rental. SSHI is not permitted to sublet any portion of the leased premises and should a change in shareholding of SSHI or Tsogo Sun Hotels occur of 35% or greater the lease may be terminated by TSC.

The group has also concluded certain transactions with Tsogo Sun Gaming, the more significant transactions are shown below:

	Rm
Hotel management fees and royalties received from Tsogo Sun Gaming	**50**
Management fees received from Tsogo Sun Gaming for shared services	**18**
Fees received from Tsogo Sun Gaming for administration services for hotels	**33**
Management fees paid to Tsogo Sun Gaming for shared services	**(14)**

9 SEGMENT INFORMATION

In terms of IFRS 8 *Operating Segments*, the chief operating decision maker ("CODM") has been identified as the group's Chief Executive Officer and the senior management team. Management has determined the operating segments based on the reports reviewed by the CODM. There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss from the pre-listing statement. Since the group's listing, the CODM has refined the basis on which it assesses the operating segments, resulting in reallocations between segments for comparability purposes as outlined in further detail on page 31.

The CODM considers the business from both a business type and geographical basis. The following are the four segments identified and monitored by the CODM:

- Manco consists of the group's management company division which manages the hotels in South Africa.
- Rental income – HPF consists of the rentals received by HPF from the 12 hotel properties leased to external third-party operators.
- Internally managed consists of the South African hotel operations which are owned within the group and are managed and reported on based on the geographical area in which the hotel is located.
- Offshore consists of the group's non-South African hotels division which owns, operates and manages hotels in other African countries, the Middle East and the Seychelles.

The group's CODM assesses the performance of the operating segments based on earnings before interest, income tax, depreciation, amortisation, property rentals, long-term incentives and exceptional items ("Ebitdar"). The measure excludes the effects of long-term incentives and the effects of non-recurring expenditure. The measure also excludes all headline earnings adjustments, impairments and fair value adjustments on non-current and current assets and liabilities. Finance income and finance costs are not included in the results for each operating segment as this is driven by the group treasury function which manages the cash and debt position of the group.

10 CAPITAL COMMITMENTS

As at 31 March 2020, the directors have committed a total of R202 million for maintenance and expansion capital items at its hotel properties. R55 million of the committed capital expenditure has been contracted for. Given the uncertainty created by the COVID-19 pandemic, all capital commitments have been deferred to a later date based on mutual agreement between the group and its major suppliers. No penalties or interest is expected to result from this deferral.

11 CONTINGENT LIABILITIES

The group had no significant contingent liabilities as at 31 March 2020.

12 SUBSEQUENT EVENTS

The COVID-19 pandemic and subsequent lockdown of the economy on 27 March 2020, and particularly, the hospitality sector, has had a profound impact on the group. The measures taken by government to limit the spread of COVID-19 and the resultant inability for travellers to travel internationally and inter-provincially will limit the demand for hotel rooms, which will impact the group's revenue streams significantly for the 2021 financial year. Hotel trading is therefore expected to remain under pressure until the outlook on the South African economy improves.

Although the impact of COVID-19 is expected to have a longer-term impact on the hospitality industry and the group, management is not able to quantify the full impact at the date of this report. It is expected that the recovery of the industry will be slow due to the uncertainties around the health of travellers, and the negative economic impact on government, corporates and individuals to spend on hotel accommodation and conferences.

In response and as set out in the "COVID-19 response and action plan" section of the commentary, the group has implemented the following steps to reduce costs and preserve cash:

Reduction of payroll burden: The group has implemented the temporary layoff of employees and has had to materially reduce pay for all levels including executive management and board members. The group will continue to operate on skeleton staffing levels until demand returns. In addition, employee recruitments and training have been placed on hold while salary increases, accrued bonus settlements and additional LTI allocations have been deferred. In order to alleviate the cash flow burden on both the company and its employees, applications have been submitted for the UIF TERS grant; pension and medical aid fund contribution holidays for a maximum period of three months; SDL payment holidays as well as PAYE payment deferrals.

Rent relief: The group is seeking rent relief with landlords for the period of the lockdown and subsequent low demand periods and negotiations in this regard continue.

Suppliers: The group has negotiated reduced or extended payment terms with major suppliers, particularly those providing fixed cost services such as security and lift maintenance. Municipal rates and taxes are a material fixed monthly cost for the group and while we currently continue to meet these obligations, we are lobbying government through industry bodies to grant a deferral or payment holiday. All contractual variable costs with suppliers have been reduced to nil until trading resumes by extending the period of the contracts.

Capital expenditure programme: The group has suspended all capital expenditure with only emergency capital expenditures and repairs and maintenance to be considered.

Facility capacity, liquidity and funding

The inability to generate revenue during the lockdown period, together with the expected slow recovery once the hotels can open and operate, made it clear the group will not be able to meet its covenant requirements in terms of its funding agreements for the measurement period 30 September 2020 and possibly 31 March 2021. Following negotiations with lenders, the group has secured:

- the waiver of its covenant requirements for the measurement period 30 September 2020, with the request for waiver of the 31 March 2021 to be considered post 30 September 2020;
- the capitalisation of bank funding interest to the group's revolving credit facilities until 30 September 2020.

At the date of the annual financial statements, the lenders are not able to provide waivers on the minimum covenant requirements for the measurement period ending 31 March 2021. This will only be considered post 30 September 2020 and management has no reason to believe that the necessary waivers will not be granted.

Property valuations

The group's property valuation methodology incorporates the use of the South African Government bond yield 10Y. As at 31 March 2020, the rate applied was 10.50%. As at 26 May 2020, the yield has reduced to 9.01% and shareholders are referred to the sensitivity analysis presented in note 4 for the impact that such movements would have on the valuation of the property portfolio.

All of the above steps taken by management and the change in the bond yield are non-adjusting and accordingly have no impact on the financial results for the year ended 31 March 2020.

13 GOING CONCERN

At year end, net cash and cash equivalents of R722 million together with available undrawn facilities will provide sufficient liquidity to the group over the next 12 months. Through engagements with the group's lenders on the COVID-19 action plans as set out in note 12, regular updates on operations and cash flow forecasts, lenders have noted their support to the group. In preparing the cash flow forecasts utilised to assess going concern, the impact of the COVID-19 pandemic on the group's operations and liquidity was considered. The directors have assessed the cash flow forecasts together with the other actions taken or proposed by management and are of the view that the group has sufficient liquidity to meet its obligations and to counteract the expected losses that may result from the COVID-19 impact on the group's operations in the next financial year.

Condensed consolidated income statement

for the year ended 31 March

	Change %	2020 Reviewed Rm	2019 Audited Rm
Rooms revenue	2	**2 791**	2 732
Food and beverage revenue	7	**1 063**	990
Property rental income		**331**	357
Other income		**290**	310
Income	2	**4 475**	4 389
Property and equipment rentals		**(97)**	(222)
Amortisation and depreciation		**(348)**	(306)
Employee costs		**(1 321)**	(1 145)
Other operating expenses		**(1 871)**	(1 785)
Impairment of property, plant and equipment		**(716)**	(94)
Fair value adjustment of investment properties		**(888)**	(445)
Operating (loss)/profit		**(766)**	392
Finance income		**40**	38
Finance costs		**(400)**	(455)
Share of (loss)/profit of associates and joint ventures		**(3)**	15
Loss before income tax		**(1 129)**	(10)
Income tax expense		**(96)**	(70)
Loss for the year		**(1 225)**	(80)
Loss attributable to:			
Equity holders of the company		**(896)**	(98)
Non-controlling interests		**(329)**	18
		(1 225)	(80)
Basic and diluted earnings attributable to the ordinary equity holders of the company per share (cents)			
Number of shares in issue (million)		**1 061**	1 061
Weighted number of shares in issue (million)		**1 060**	22
Basic and diluted (loss)/earnings per share (cents)	81	**(84.5)**	(450.4)

Condensed consolidated statement of comprehensive income

for the year ended 31 March

	2020 Reviewed Rm	2019 Audited Rm
Loss for the period	**(1 225)**	(80)
Other comprehensive income for the period, net of tax		
Items that may be reclassified subsequently to profit or loss:	**221**	174
Cash flow hedges	**(50)**	4
Currency translation adjustments	**256**	171
Income tax relating to items that may subsequently be reclassified to profit or loss	**15**	(1)
Items that may not be reclassified subsequently to profit or loss:	**2**	2
Remeasurements of post-employment defined benefit liability	**3**	3
Income tax relating to items that may not subsequently be reclassified to profit or loss	**(1)**	(1)
Total comprehensive (loss)/income for the year	**(1 002)**	96
Total comprehensive (loss)/income attributable to:		
Equity holders of the company	**(660)**	75
Non-controlling interests	**(342)**	21
	(1 002)	96

Supplementary information

for the year ended 31 March

	Change %	2020 Reviewed Rm	2019 Audited Rm
Reconciliation of earnings attributable to equity holders of the company to headline earnings and adjusted headline earnings			
Loss attributable to equity holders of the company:		**(896)**	(98)
Loss on disposal of plant and equipment		**2**	3
Impairment of property, plant and equipment		**716**	94
Fair value adjustment on investment properties		**888**	445
Impairment relating to RBH (Associate)		**17**	–
Share of associates' headline earnings adjustment		**41**	10
Total tax effect of adjustments		**(52)**	(27)
Total non-controlling interest effects of adjustments		**(500)**	(182)
Headline earnings	(12)	**216**	245
Transaction costs		**3**	32
Fair value adjustment on interest rate swaps		**–**	(2)
Restructuring costs (including termination benefits)		**40**	8
Pre-opening expenses		**–**	1
Impairment of inventory		**2**	–
Fair value adjustment on RDI investment		**1**	–
Derecognition of Southern Sun Maputo deferred tax		**30**	–
Share of associates' exceptional items		**1**	(1)
Total tax effects of other exceptional items		**(11)**	1
Total non-controlling interest effects of exceptional items		**(4)**	(7)
Adjusted headline earnings	–	**278**	277
Number of shares in issue (million)		**1 061**	1 061
Weighted number of shares in issue (million)		**1 060**	22
Basic and diluted headline earnings per share (cents)		**20.4**	1 126.1
Basic and diluted adjusted headline earnings per share (cents)		**26.2**	1 273.1
Reconciliation of operating profit to Ebitdar			
Ebitdar pre-exceptional items is made up as follows:			
Operating profit		**(766)**	392
Add/(less):			
Amortisation and depreciation		**348**	306
Property rentals		**84**	208
Long-term incentive expense		**17**	4
		(317)	910
Add: Exceptional losses net of gains			
Loss on property, plant and equipment		**2**	3
Impairment of property, plant and equipment		**716**	94
Impairment of inventory		**2**	–
Fair value adjustment of investment properties		**888**	445
Fair value adjustment on RDI investment		**1**	–
Fair value adjustment on interest rate swaps		**–**	(2)
Impairment relating to RBH (Associate)		**17**	–
Pre-opening expenses		**–**	1
Restructuring costs (including termination benefits)		**40**	8
Transaction costs		**3**	32
Ebitdar	(9)	**1 352**	1 491

Condensed consolidated cash flow statement

for the year ended 31 March

	2020 Reviewed Rm	2019 Audited Rm
Cash flows from operating activities		
(Loss)/profit before interest and income tax	**(766)**	392
Adjust for non-cash movements and dividends received	**2 121**	980
Increase in working capital	**(34)**	(61)
Cash generated from operations	**1 321**	1 311
Finance income	**40**	37
Finance costs	**(394)**	(459)
	967	889
Income tax paid	**(121)**	(79)
Dividends paid to shareholders	**–**	(5)
Dividends paid to non-controlling interests	**(245)**	(291)
Dividends received	**22**	11
Net cash generated from operations	**623**	525
Cash flows from investment activities		
Purchase of property, plant and equipment	**(329)**	(304)
Proceeds from disposals of property, plant and equipment	**–**	36
Purchase of intangible assets	**(6)**	(16)
Additions to investment property	**(160)**	(160)
Proceeds from disposal of investment property	**3**	–
Acquisition of business – intellectual property	**(8)**	–
Additional investment in associate	**(8)**	–
Other loans granted	**(29)**	–
Net cash utilised for investment activities	**(537)**	(444)
Cash flows from financing activities		
Borrowings raised	**2 179**	174
Borrowings repaid	**(1 651)**	(145)
Cash proceeds from issue of shares	**–**	2 225
Payment of lease liabilities	**(128)**	–
Other current liabilities repaid	**(7)**	(2 366)
Net cash generated from/(utilised for) financing activities	**393**	(112)
Net increase/(decrease) in cash and cash equivalents	**479**	(31)
Cash and cash equivalents at beginning of year, net of bank overdrafts	**212**	225
Foreign currency translation	**31**	18
Cash and cash equivalents at end of year, net of bank overdrafts	**722**	212

Condensed consolidated balance sheet

as at 31 March

	2020 Reviewed Rm	2019 Audited Rm
ASSETS		
Non-current assets		
Property, plant and equipment	**7 554**	7 684
Right-of-use assets	**799**	–
Investment properties	**4 149**	4 881
Goodwill	**354**	354
Other intangible assets	**56**	50
Investments in associates	**446**	488
Investments in joint ventures	**124**	120
Post-employment benefit asset	**4**	1
Non-current receivables	**14**	6
Other financial assets	**2**	–
Deferred income tax assets	**84**	52
	13 586	13 636
Current assets		
Inventories	**58**	46
Trade and other receivables	**454**	458
Other current assets	**3**	39
Cash and cash equivalents	**1 281**	407
	1 796	950
Total assets	**15 382**	14 586
EQUITY		
Capital and reserves attributable to equity holders of the company		
Ordinary share capital and premium	**4 642**	4 642
Other reserves	**599**	289
Retained earnings	**1 102**	2 059
Total shareholders' equity	**6 343**	6 990
Non-controlling interests	**2 352**	2 939
Total equity	**8 695**	9 929

Condensed consolidated balance sheet continued
as at 31 March

	2020 Reviewed Rm	2019 Audited Rm
LIABILITIES		
Non-current liabilities		
Interest-bearing borrowings	**3 974**	2 885
Lease liabilities	**1 024**	–
Derivative financial instruments	**50**	–
Deferred income tax liabilities	**175**	212
Long-term incentive liabilities	**–**	5
Deferred revenue	**37**	34
Provisions	**58**	51
Other non-current liabilities	**–**	186
	5 318	3 373
Current liabilities		
Interest-bearing borrowings	**559**	485
Lease liabilities	**13**	–
Trade and other payables	**622**	631
Deferred revenue	**75**	70
Current income tax liabilities	**100**	98
	1 369	1 284
Total liabilities	**6 687**	4 657
Total equity and liabilities	**15 382**	14 586

Consolidated statement of changes in equity

	Attributable to equity holders of the company					
	Ordinary share capital and premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm	Non-controlling interests Rm	Total equity Rm
Balance at 31 March 2018 (audited)	1 923	118	2 160	**4 201**	3 209	**7 411**
Total comprehensive income	–	171	(96)	**75**	21	**96**
(Loss)/profit for the year	–	–	(98)	**(98)**	19	**(80)**
Cash flow hedges net of tax	–	2	–	**2**	1	**3**
Currency translation adjustment	–	169	–	**169**	2	**171**
Remeasurements of post-employment defined benefit liability net of tax	–	–	2	**2**	–	**2**
Issue of shares	2 719	–	–	**2 719**	–	**2 719**
Ordinary dividends	–	–	(5)	**(5)**	(291)	**(296)**
Balance at 31 March 2019 (audited)	4 642	289	2 059	**6 990**	2 939	**9 929**
Change in accounting policy – adoption of IFRS 16 *Leases*[1]	–	–	(63)	**(63)**	–	**(63)**
Balance at 1 April 2019	4 642	289	1 996	**6 927**	2 939	**9 866**
Total comprehensive income	–	234	(894)	**(660)**	(342)	**(1 002)**
Loss for the year	–	–	(896)	**(896)**	(329)	**(1 225)**
Cash flow hedges, net of tax	–	(21)	–	**(21)**	(14)	**(35)**
Currency translation adjustment	–	255	–	**255**	1	**256**
Remeasurements of post-employment defined benefit liability net of tax	–	–	2	**2**	–	**2**
Shareholders' redemption provision	–	24	–	**24**	–	**24**
Share-based payments conversion	–	35	–	**35**	–	**35**
Share-based payments charge	–	17	–	**17**	–	**17**
Ordinary dividends	–	–	–	**–**	(245)	**(245)**
Balance at 31 March 2020 (reviewed)	4 642	599	1 102	**6 343**	2 352	**8 695**

[1] *Refer to note 2.2 on page 11.*

Segmental analysis

for the year ended 31 March

	Income[1]		Ebitdar[2, 3]		Ebitdar margin	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 %**	2019 %
Manco	**266**	289	**154**	171	**58**	59
Rental income – HPF[5]	**310**	337	**310**	337	**100**	100
Internally managed	**3 501**	3 329	**787**	839	**22**	25
Coastal	**1 885**	1 906	**463**	505	**25**	26
Inland	**1 344**	1 150	**262**	253	**20**	22
Other[6]	**272**	273	**62**	81	**23**	30
Offshore	**569**	605	**101**	144	**18**	24
Internal management fees[4]	**(183)**	(181)	**–**	–	**–**	–
Total	**4 463**	4 379	**1 352**	1 491	**30**	34

1 *All revenue and income from hotel operations is derived from external customers. No one customer contributes more than 10% to the group's total revenue.*

2 *Refer reconciliation of operating profit to Ebitdar on page 26.*

3 *The adoption of IFRS 16 had no significant impact on Ebitdar.*

4 *Included in Manco.*

5 *Subsequent to the company's listing, the CODM refined its assessment of the operational segments to allow for comparability. The CODM now reviews rental income net of rates and taxes expensed by the lessor for segmental reporting purposes. Rates and taxes of R10 million relating to the 2019 financial year have been reallocated from Manco to Rental income – HPF.*

6 *Internal management fees amounting to R13 million and relating to the 2019 financial year was reallocated from Internally managed – Other to Manco. This was done to ensure comparability and that the Ebitdar of the internally managed hotel properties are consistently reported post-management fees.*

Revenue from contracts with customers

for the year ended 31 March

The group derives revenue over time, with the exception of food and beverage revenue which is recognised at a point in time, together with its hotel customer reward programmes in terms of which revenue is recognised as the rewards are redeemed or they expire. The group has no contract assets. The table below presents revenue by segment which excludes other income as these are accounted for under different accounting policies, which are included in the segmental analysis on page 31. Disaggregation of revenue from contracts with customers for the period under review:

	Rooms revenue recognised over time		**Food and beverage recognised at a point in time**		**Other revenue recognised over time**		**Revenue from external customers**	
	2020 Rm	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm	**2020 Rm**	2019 Rm
Internally managed	**2 429**	2 346	**901**	814	**168**	165	**3 498**	3 325
Coastal	**1 337**	1 356	**478**	476	**70**	75	**1 885**	1 907
Inland	**903**	788	**372**	296	**69**	66	**1 344**	1 150
Other	**189**	202	**51**	42	**29**	24	**269**	268
Manco	**–**	–	**–**	–	**83**	108	**83**	108
Offshore	**362**	386	**162**	176	**39**	37	**563**	599
	2 791	2 732	**1 063**	990	**290**	310	**4 144**	4 032
Reconciliation to segmental analysis on page 31:								
Revenue from contracts with customers per above							**4 144**	4 032
Property rental income							**331**	357
Reallocation of rates and taxes							**(12)**	(10)
Total income per segmental analysis							**4 463**	4 379

Corporate information

TSOGO SUN
HOTELS

DIRECTORS

JA Copelyn (Chairman)* MN von Aulock (Chief Executive Officer) L McDonald (Chief Financial Officer) MH Ahmed (Lead Independent)*# SC Gina*# ML Molefi*# JG Ngcobo*# JR Nicolella* CC September*#

** Non-executive   # Independent*

COMPANY SECRETARY

Southern Sun Secretarial Services Proprietary Limited

REGISTERED OFFICE

Palazzo Towers West, Montecasino Boulevard, Fourways, 2055 (Private Bag X200, Bryanston, 2021)

TRANSFER SECRETARIES

Link Market Services South Africa Proprietary Limited, 13th Floor, Rennie House, 19 Ameshoff Street, Braamfontein, 2001 (PO Box 4844, Johannesburg, 2000)

SPONSOR

Investec Bank Limited, 100 Grayston Drive, Sandown, Sandton, 2196, South Africa.

AUDITORS

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Jukskei View, 2090 (Private Bag X36, Sunninghill, 2157) www.tsogosun.com