CITY LODGE HOTELS LIMITED

REVIEWED GROUP PROVISIONAL RESULTS

for the year ended 30 June 2021

#staysafe

Caring comes from the heart

Average group occupancies

19%

2020: 38%

Revenue

R0.51bn

2020: R1.16bn

Average occupancies open hotels

Group

26%

SA

28%

Earnings per share

-161c

2020: -440c

Headline earnings per share

-91c

2020: -128c

Dividends declared per share

Nil

2020: 153.0c

Commentary

The 2020/2021 financial year has been dominated by the Covid-19 pandemic and the various degrees of lockdown mandated by President Cyril Ramaphosa. The City Lodge Hotel Group has demonstrated agility and innovation in running a solutions-based operating environment in which its management team responds quickly and creatively to challenges, including its ability to temporarily suspend and reactivate hotels as demand determines.

With minimal international travel allowed throughout the period under review, the emphasis has been on boosting domestic travel, both business and leisure. What this has assured is that when international travellers return to South Africa, they will be wowed by the ingenuity of the group's enhanced hospitality products and services on offer. The demand for Covid-19 hygiene and safety protocols, coupled with a constrained social environment has seen strict daily screening of staff and guests, stringent adherence to wearing masks in public areas at all times, regular sanitising of hands, touch points and surfaces, and physical distancing.

The government's vaccination programme, after getting off to a slow start, commenced in mid-February 2021. During the last two months, since vaccinations opened to 35 to 60-year-olds, we have seen the most momentum in people getting vaccinated. Vaccinations opened to 18 to 34-year-olds on 20 August 2021, earlier than initially planned, and the take-up has been very encouraging with almost 300 000 vaccinations being administered per day. As of 31 August 2021, in excess of 12 million vaccinations had been administered (source: www.sacoronavirus.co.za). The success of the vaccination programme is integral to the recovery of the hospitality industry.

REVIEW OF OPERATIONS

Occupancies based on total inventory have steadily improved from the last quarter of the 2020 financial year, which ended on 4% occupancies, to slow improvements in occupancy in July 2020 of 7% when the group re-opened a total of 36 hotels as the level 5 hard-lockdown regulations were slightly relaxed and ending the financial year in June 2021 with monthly occupancy of 25% in the midst of the third wave of infections and adjusted level 4 restrictions. Occupancies for the year were 19%, compared to 38% in 2020 and 55% in 2019. Revenue for the year decreased by 56% to R0.5 billion, while operating costs, excluding depreciation and amortisation, decreased by 22%, and by 30% excluding unrealised foreign exchange losses. The operating cost reductions were mainly due to the cost-containment measures put in place from April 2020 to mitigate the extent of the losses arising from minimal revenues.

Depreciation and amortisation on owned assets decreased by 9.0%, while a depreciation charge for right-of-use assets decreased by 7%, mainly due to the impact of impairments recognised in the prior year. Interest expense decreased by R26.8 million, mainly due to the redemption and repayment of BEE preference shares and BEE interest-bearing loans, in December 2020.

The group incurred a net loss of R804.6 million (2020: R486.6 million) for the year. The prolonged recovery of the sector and the dependency on the successful vaccine roll-out has also led to the recognition of additional impairments to property plant and equipment of R390.4 million (2020: R245.5 million) mainly on the East African assets held for sale, reversal of impairment on right-of-use assets of R48.9m (2020: impairment loss R242.9 million), impairment of goodwill of R10.6 million (2020: Rnil) and impairment of VAT receivable of R25.9 million (2020: Rnil).

Commentary continued

The loss in earnings per share of 161c (2020: 440c) and the loss in headline earnings per share of 91c (2020: 128c) has improved compared to prior year, mainly due to the dilutive impact of the additional shares in issue following the rights offer.

The completion of the rights offer in August 2020 raised gross proceeds of R1.2 billion, gave a much-needed injection of liquidity and has led to the group settling its broad-based black economic empowerment (BBBEE) debt through the redemption of the BEE preference shares and settlement of accrued preference dividends, term loans and interest accrued totalling R770.9 million in December 2020.

While we have maintained a Level 4 BBBEE rating, the rights offer resulted in the unwinding of our BBBEE structure and the loss of some equity ownership. BBBEE ownership remains important to the group, and we are committed to continually improving our BBBEE credentials and maintaining our overall rating.

The group's lenders have been very supportive during the ongoing operational challenges, the prolonged pandemic and the resurgent waves of infections, which have extended the economic recovery of the hospitality sector. The group has drawn R650 million of the total available loan facilities of R800 million and also has access to an overdraft facility of R115 million. The funders recently approved an extension of the repayment date of Loan F, R100 million, from September 2021 to September 2022, and access to an additional R100 million Loan G facility (included in the total R800 million available facilities), in addition to waiving the original debt covenants to the September 2022 measurement period.

DEVELOPMENT AND DISPOSAL ACTIVITY

South Africa

For the last 18 months, South Africa, like the rest of the world, has been in some form of lockdown. The severity of restrictions has changed as waves of Covid-19 infections and new variants ebb and flow. Super-spreader events such as the traditional 'Matric Rage' holiday to the coast triggered the second wave, putting a dampener on fourth quarter 2020 occupancies and profitability.
The onset of winter 2021 and the new Delta virus variant resulted in a third wave and return to stricter lockdown.

Some of the innovations borne out of operating in challenging and unprecedented times are listed below:

- **#YourPrivateOffice** offers those working from home as offices remain closed a private and professional place to work for the day. The desk in the room is set up as a professional workstation and is available from 08:00 to 15:00 from R495 per day, inclusive of tea and coffee making facilities, secure parking, fast and reliable WiFi, air-conditioning, and peace and quiet.
- **Online check-in** accessed via our website and mobile app was launched in October 2020 to reduce the number of shared touchpoints in reception and speed up the check-in process.
- **QR codes** have allowed restaurants and bars to go contactless too, with guests able to access food and drinks menus and hotel service directories by scanning a QR code with their mobile phone.
- **Enhanced food and beverage** offerings as guests look for more reasons to stay in their hotel and outside restaurants are closed. A new general manager of food and beverage position was created in April 2021 to head up this initiative as the group seeks more bespoke solutions for each brand and hotel. The enhanced offering has helped attract more leisure, 'bleisure', staycation and special holiday events business.

- **Amenities free from single-use plastic** were launched to replace the existing range of in-room amenities and the range includes the Zero shampoo bar.
- **Promotions offering special rates** are run every month to help entice business and leisure travellers back into our hotels with affordable rates to suit all pockets across our hotel brands. These include special weekend or WKND Rates; WOZA Friday sales blitz that takes place every last Friday of the month for any stay during the year and is aimed at encouraging forward bookings; and monthly specials tied in with national and international holidays and events. Each has a food and beverage component to the promotion.

The 168-room **Courtyard Hotel Waterfall City opened** on 1 March 2021 and is the group's 63rd hotel. The new flagship of the Courtyard brand, which is located in the lively and vibrant Waterfall City in Midrand, marks a significant milestone in hotel design and development. It features the latest technological innovation, state-of-the-art conference facilities and a full culinary team preparing delectable cuisine. Initial trading has been encouraging.

The hotel initially opened both restaurants (The Protea and The Highline), a 100-seater conference centre, boardroom, gym, co-meeting areas, 84 bedrooms and four suites, with the remaining floors and 80 rooms opening in phases according to demand. The property has received a four-star Green Building Council SA certification that validates the sustainability initiatives implemented during the design, construction and procurement phase.

Two hotels have rebranded and repositioned their offering to better suit the market needs of the area. These were Courtyard Hotel Eastgate, now City Lodge Hotel Eastgate, and Town Lodge Sandton, Grayston Drive, now Road Lodge Sandton. The new brands and price points are more appealing to visitors to these two areas, and ensure the properties stay relevant.

Courtyard Hotel Rosebank underwent **refurbishment** of its bedrooms and now features fresh furniture, furnishings and air-conditioning units. Other major refurbishments are on hold due to liquidity constraints but will be brought back online as demand and the economic recovery becomes more consistent and the liquidity position improves.

East Africa

Most hotels in this region had to suspend services temporarily. **Kenya** is very dependent on the international travel market and its travel restrictions have negatively affected occupancies.

Tanzania has seen steady occupancies as the hotel tries to grow its market share in the country. The business hospitality market is very dependent on North American and European travellers. The country's president passed away in March and his deputy took over, leading to signs of welcome policy changes that included better acceptance of the Covid-19 reality and adoption of protocols, which is important to boost international travel confidence.

The big news in this region for the group is the **sale of its East Africa hotels** in July 2021. The 127-room Fairview Hotel, 84-room Town Lodge Upper Hill and 171-room City Lodge Hotel at Two Rivers Mall in Nairobi, Kenya have been sold to Ukarimu Limited, which is owned by Actis Africa Real Estate, a leading global investor in sustainable real estate and infrastructure. The 148-room City Lodge Hotel Dar es Salaam in Tanzania has been sold to Faraja Limited, also owned by Actis.

The board had previously communicated its desire to dispose of its entire East African hotel portfolio together in order to reduce debt levels within the group, increase group liquidity and eliminate ongoing operating losses and further funding requirements. All the proceeds received will be applied towards the settlement of City Lodge Hotels' interest-bearing borrowings and contribute to the working capital requirements.

Southern Africa

Namibia has seen gentle growth in occupancies, with some impact noted as South Africa goes in and out of lockdowns, as most guests emanate from South Africa.

Botswana continues to enjoy government business and trading patterns are very similar to South Africa, as it is also mainly reliant on guests from the country.

Our hotel in **Mozambique** was not yet completely opened before it had to temporarily suspend services. However, the economy of that country has started to reawaken and with that business activity, leading to recent positive demand for accommodation.

OUTLOOK

Occupancies for July 2021 were 16% for the total inventory in the South African hotels following a turbulent month of civil unrest and lockdown restrictions to travel, while August saw an improvement to 24%. As at 9 September 2021, the group has 51 out of the 56 hotels open in South Africa and five out of seven hotels open in Rest of Africa. With the third wave of infections beginning to wane and the arrival of warmer weather, the forecast for **occupancies** is positive, as travel within and between South Africa and the world begins to recover. This is in no small part due to the success of the rollout of the vaccination programme, being the catalyst to growing confidence to travel by local and international travellers. Also, local industry associations like Tourism Business Council of South Africa and South Africa Tourism are lobbying hard to get South Africa moved off the 'Red List' of all European and North American countries. Good progress has been made in this regard in Germany, Netherlands, Switzerland and Canada who have removed South Africa from their 'red-lists'.

Digital innovation and the group's information technology (IT) solutions are surging ahead and future wins are expected from the recent introduction of best available rates (BAR), coupled with an artificial intelligence (AI) demand prediction tool. These exciting initiatives will see a move away from a fixed rate for each brand and towards a rate that better reflects supply and demand. The AI tool will 'learn' our accommodation booking trends and patterns, helping to inform future pricing. Combined, these business tools provide general managers at our hotels with valuable insights and allow them to determine BAR based on their property's unique location and customer behaviour patterns.

The group's **sustainability** journey will be given a further boost as we expand the rollout of solar panels to more hotels. We have plans for the installation of a filtered borehole water supply in Gqeberha, to ensure the sustained supply of clean, usable water at some of the hotels, as the local water supply situation remains dire.

We remain cautiously optimistic that the worst of the Covid-19 pandemic is behind us, as an encouraging portion of the South African population has been vaccinated, and very soon we can all once again embrace the freedom of travel and hospitality, and start **#GettingBackToLife**. There is pent-up demand as we emerge from the 18-month confinement within our homes, to begin to explore, socialise and experience life. We have all made the many sacrifices necessary to try and limit the spread of this deadly virus. Now let us reward ourselves with a return to travel and City Lodge Hotel Group's promise of TLC – tip-top, loving and clean hospitality coupled with service excellence.

We offer you the opportunity to live, breathe, taste and experience the great places that South Africa and its neighbouring countries have to offer once again, while providing a safe place to lay your head. We have taken care of all of your Covid-19 safety and hygiene protocols so that you can relax and enjoy what life has to offer.

Condensed consolidated statement of comprehensive income

R000	Note	(Reviewed) Year ended 30 June 2021	% Change	(Audited) Year ended 30 June 2020
Revenue	10	**507 816**	(56)	1 159 283
Other income		**2 173**		4 829
Administration and marketing costs		**(74 640)**		(97 314)
BEE transaction charges		**(1 223)**		(288)
Expected credit loss on trade and other receivables		**(2 215)**		(268)
Operating costs excluding depreciation and amortisation		**(570 407)**	(22)	(735 848)
(Loss)/profit from operating activities before depreciation and amortisation		**(138 496)**	(142)	330 394
Depreciation and amortisation		**(119 959)**		(131 156)
Depreciation – right-of-use assets		**(85 894)**		(92 302)
(Loss)/profit from operating activities		**(344 349)**	(422)	106 936
Impairment loss on property, plant and equipment	4	**(390 443)**		(245 464)
Disposal groups held for sale		**(299 967)**		–
Other		**(90 476)**		–
Impairment reversal/(loss) on right-of-use assets	4	**48 945**		(242 889)
Disposal groups held for sale		**22 595**		–
Other		**26 350**		–
Impairment on goodwill	4	**(10 602)**		–
Impairment of other assets	4	**(25 879)**		–
Impairment of disposal group	5	**(9 600)**		–
Interest income		**7 746**	166	2 914
Total interest expense		**(177 415)**	(13)	(204 212)
Interest expense[1]		**(39 756)**		(34 569)
Interest expense – leases		**(119 031)**		(117 214)
BEE interest expense		**(1 417)**		(4 060)
BEE preference dividend		**(17 211)**		(48 369)
Loss before taxation		**(901 597)**	55	(582 715)
Taxation		**96 988**		96 083
Loss for the year		**(804 609)**	65	(486 632)
Other comprehensive income items that are or may be reclassified to profit or loss				
Foreign currency translation differences[2]		**(19 905)**		52 128
Total comprehensive income for the year		**(824 514)**	90	(434 504)
Basic earnings per share (cents)[3]		**(161)**	(63)	(440)
Basic diluted earnings per share (cents)[3]		**(161)**	(63)	(440)

[1] *Interest expense for the year ended to 30 June 2021 increased due to a reduction in interest capitalised to hotels under construction of R0.3 million (2020: R26.2 million) following completion of those hotels.*

[2] *Foreign currency translation differences are largely due to (weakening)/strengthening of the Tanzanian Shilling compared to the SA Rand.*

[3] *The comparative basic earnings per share have been restated in terms of IAS 33.28 as a result of the rights offer in August 2020 contained a bonus element.*

Condensed consolidated statement of financial position

R000	Note	(Reviewed) 30 June 2021	(Audited) 30 June 2020
ASSETS			
Non-current assets		**2 739 988**	3 617 316
Property, plant and equipment		**1 671 924**	2 509 752
Right-of-use assets		**998 262**	985 014
Intangible assets and goodwill		**39 900**	57 422
Investments		**800**	800
Other investments		**–**	7 900
Deferred taxation		**29 102**	56 428
Current assets		**613 494**	241 088
Inventories		**3 296**	5 540
Trade receivables		**17 586**	18 877
Other receivables		**95 639**	137 602
Taxation		**37 531**	42 756
Other investments		**–**	7 900
Cash and cash equivalents		**5 477**	28 413
		159 529	241 088
Assets held for sale	5	**453 965**	–
Total assets		**3 353 482**	3 858 404
EQUITY			
Capital and reserves		**936 357**	568 316
Stated capital	6	**1 324 717**	179 503
Treasury shares		**(510 928)**	(514 381)
Retained earnings		**9 957**	712 683
Other reserves		**112 611**	190 511
LIABILITIES			
Non-current liabilities		**2 043 884**	2 260 101
Interest-bearing borrowings	7	**650 000**	750 000
Lease liabilities		**1 365 591**	1 376 063
Deferred taxation		**28 293**	134 038
Current liabilities		**373 241**	1 029 987
Trade and other payables		**175 372**	170 336
Lease liabilities		**24 516**	12 377
BEE interest-bearing borrowings	8	**–**	44 120
BEE preference shares	8	**–**	349 300
BEE shareholder’s loan	8	**–**	50 000
BEE B preference share dividend accrual	8	**–**	356 416
Bank overdraft		**89 651**	47 438
		289 539	1 029 987
Liabilities directly associated with assets held for sale	5	**83 702**	–
Total liabilities		**2 417 125**	3 290 088
Total equity and liabilities		**3 353 482**	3 858 404

Condensed consolidated statement of cash flows

R000	(Reviewed) Year ended 30 June 2021	(Audited) Year ended 30 June 2020
Operating cash flow before working capital changes	**(121 416)**	264 004
Decrease in working capital	**24 155**	9 254
Cash (utilised in)/generated by operations	**(97 261)**	273 258
Interest received	**7 746**	2 914
Interest paid	**(45 350)**	(77 114)
Interest paid – leases	**(119 031)**	(117 214)
Taxation refunded/(paid)	**4 052**	(37 529)
Dividends paid	**–**	(108 214)
Distribution to employees by 10th Anniversary Employee Share Trust	**(703)**	–
Cash outflow from operating activities	**(250 547)**	(63 899)
Cash utilised in investing activities	**(77 288)**	(102 642)
– investment to maintain property, plant and equipment	**(2 709)**	(53 749)
– investment to expand property, plant and equipment	**(74 579)**	(49 035)
– proceeds on disposal of property, plant and equipment	**–**	142
Cash inflows from financing activities	**265 310**	66 355
– repayment of lease liability	**(15 190)**	(15 005)
– purchase of incentive scheme shares	**–**	(2 940)
– proceeds from sale of rights	**66 396**	–
– purchase of treasury shares in rights offer	**(66 396)**	–
– proceeds from interest-bearing borrowings	**180 000**	90 000
– repayment of interest-bearing borrowings	**(280 000)**	–
– repayment of BEE interest-bearing borrowings	**(44 120)**	–
– payment of BEE preference share dividends accrued	**(371 099)**	–
– redemption of BEE preference shares	**(349 300)**	(5 700)
– repurchase of ordinary shares	**(574)**	–
– net proceeds from rights offer	**1 145 593**	–
Net decrease in cash and cash equivalents	**(62 525)**	(100 186)
Cash and cash equivalents at the beginning of the year	**(19 025)**	71 046
Reclassification of other investments to cash and cash equivalents	**15 800**	6 577
Effect of movements in exchange rates on other investments	**–**	(2 727)
Effect of movements in exchange rates on cash held	**(3 747)**	6 265
Cash and cash equivalents at the end of the year	**(69 497)**	(19 025)

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 has now been released back to depositors.

Condensed consolidated statement of changes in equity

R000	Stated capital	Treasury shares[1]	Other reserves	Retained earnings	Total
Balance at 30 June 2019	179 503	(518 014)	137 683	1 307 529	1 106 701
Total comprehensive income for the year	–	–	52 128	(486 632)	(434 504)
Loss for the year	–	–	–	(486 632)	(486 632)
Other comprehensive income					
Foreign currency translation differences	–	–	52 128	–	52 128
Transactions with owners, recorded directly in equity	–	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)
Balance at 30 June 2020	179 503	(514 381)	190 511	712 683	568 316
Total comprehensive income for the year	–	–	**(19 905)**	**(804 609)**	**(824 514)**
Loss for the year	–	–	–	**(804 609)**	**(804 609)**
Other comprehensive income					
Foreign currency translation differences	–	–	**(19 905)**	–	**(19 905)**
Transactions with owners, recorded directly in equity	**1 145 214**	**3 453**	**(57 995)**	**101 883**	**1 192 555**
Issue of new ordinary shares	**1 145 593**	–	–	–	**1 145 593**
Repurchase of ordinary shares	**(379)**	–	–	**(195)**	**(574)**
Proceeds from sale of rights	–	**66 396**	–	–	**66 396**
Purchase of treasury shares in rights offer	–	**(66 396)**	–	–	**(66 396)**
Incentive scheme shares	–	**3 453**	**(3 453)**	–	–
Share compensation reserve	–	–	**(1 761)**	–	**(1 761)**
Distribution to employees by 10th Anniversary Employee Share Trust	–	–	–	**(703)**	**(703)**
Reclassification of the equity portion of the BEE shareholder's loan and BEE share-based payment reserve	–	–	**(52 781)**	**52 781**	–
Gain on waiver of BEE shareholder's loan	–	–	–	**50 000**	**50 000**
Balance at 30 June 2021	**1 324 717**	**(510 928)**	**112 611**	**9 957**	**936 357**

[1] *The heading has changed from 'BEE investment and incentive scheme shares' in the prior year, following the BEE indirect repurchase completed during the year.*

Supplementary financial information

R000		Note	Year ended 30 June 2021	% change	Year ended 30 June 2020
1.	**Headline earnings reconciliation**				
	Loss for the year		**(804 609)**		(486 632)
	Profit on sale of property, plant and equipment		**–**		(6)
	Impairment loss on property, plant and equipment		**390 443**		245 464
	Impairment reversal/(loss) on right-of use-assets		**(48 945)**		242 889
	Impairment of goodwill		**10 602**		–
	Taxation effect		**(2 665)**		(143 797)
	Headline earnings		**(455 174)**	220	(142 082)
	Number of shares in issue (000's)	3	**571 645**		36 677
	Weighted average number of shares in issue for EPS calculation (000's)[1]	2	**501 001**		110 661
	Weighted average number of shares in issue for diluted EPS calculation (000's)[1]	2	**501 001**		110 661
	Headline earnings per share (cents)[1]	1			
	– undiluted		**(90.9)**	(29)	(128.4)
	– fully diluted		**(90.9)**	(29)	(128.4)
2.	**Weighted average number of shares (000's)**				
	Total number of weighted average number of shares in issue		**536 546**		131 469
	Treasury shares/BEE share investment held as treasury shares		**(32 922)**		(19 281)
	10th Anniversary Employees Share Trust treated as treasury shares		**(2 623)**		(1 527)
	Weighted average number of shares in issue for EPS and HEPS calculations[1]		**501 001**		110 661
3.	**Number of shares in issue reconciliation (000's)**				
	Total number of shares in issue		**609 860**		43 574
	Treasury shares/BEE share investment held as treasury shares		**(35 394)**		(6 390)
	10th Anniversary Employees Share trust investment held as treasury shares		**(2 821)**		(507)
	Net of treasury shares in issue		**571 645**		36 677
4.	**Net asset value per share (cents)**		**164**		1 550
5.	**Net tangible asset value per share (cents)**		**157**		1 393
6.	**Net replacement asset value per share (cents)**		**1 044**		
7.	**Dividend declared per share (cents)**		**–**		153.0
	– interim		**–**		153.0
	– final		**–**		–

[1] *The comparative headline earnings per share and weighted average number of shares have been restated in terms of IAS 33.28 as a result of the rights offer in August 2020 contained a bonus element.*

Notes to reviewed condensed consolidated financial statements

for the year ended 30 June 2021

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 provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional 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. The reviewed condensed consolidated financial statements should be read in conjunction with the audited annual financial statements for the year ended 30 June 2020.

The condensed consolidated financial statements have been presented on the historical cost basis, and is 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 and have been authorised. The directors take full responsibility for the preparation of the provisional report.

2. Review report of the independent auditor

These condensed consolidated financial statements for the year ended 30 June 2021 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.

3. 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 significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements. The estimates and associated assumptions are based on historical experience, consideration of market predictions at these unprecedented times and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates and assumptions 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.

3. Significant judgements and estimates continued

In particular, in addition to information about impairments set out in note 4 and going concern set out in note 16, 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.

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 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. Judgement is required in assessing whether deferred tax assets will be recovered through future profits.

Notes to reviewed condensed consolidated financial statements continued

for the year ended 30 June 2021

4. Impairment of property, plant and equipment, right-of-use assets, goodwill and other assets

4.1 Impairment of property, plant and equipment and right-of-use assets

During the year ended 30 June 2021, the group impaired property, plant and equipment by R390.4 million (2020: R245.5 million) mainly on impairment to fair value less cost to sell of East African assets held for sale and reversed impairments on right-of-use assets by R48.9 million (2020: impairment losses R242.9 million). 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 16.0% in the next financial year, reducing to a normalised level of 15.4% by 2023 for South African hotels and range between 13.7% and 20.0% for Rest of Africa hotels. Management has forecast a gradual recovery from the third wave and the local insurrection in the first quarter of the financial year, with steady growth in occupancies in the second quarter and beyond, as the success of the vaccination programmes enable the economy to open further. Cash flows for the remainder of 2022 will remain constrained with the group assumed to reach break-even EBITDA levels in and around the third quarter of the 2022 financial year. Occupancy and trading levels are assumed to return to 2019 financial year levels within the 2023 financial year. The annual growth rate applied to cash flow forecasts for established hotels for 2024 to 2026 financial years is 5%. The terminal growth rate applied is 4.5% for South African hotels and ranges between 3% and 6.5% for the Rest of Africa hotels. Fair value less costs to sell, was based on comparable sales where information was available, or alternate use development and comparable sales in the immediate vicinity of the hotel. Impairment of assets held-for-sale has been based on the agreed sales consideration with the buyer.

The impairment of property, plant and equipment and right-of-use assets of the following geographical regions recognised during the year were as follows:

	2021		
R000	**Property, plant and equipment**	**Right-of-use asset**	**Total**
South Africa	**27 317**	**(22 434)**	**4 883**
Rest of Africa	**363 126**	**(26 511)**	**336 615**
Disposal groups held for sale	**299 967**	**(22 594)**	**277 373**
Other	**63 159**	**(3 917)**	**59 242**
	390 443	**(48 945)**	**341 498**

	2020		
R000	Property, plant and equipment	Right-of-use asset	Total
South Africa	29 492	167 864	197 356
Rest of Africa	215 972	75 025	290 997
	245 464	242 889	488 353

4. Impairment of property, plant and equipment, right-of-use assets, goodwill and other assets continued

4.1 Impairment of property, plant and equipment and right-of-use assets continued

The table below indicates the sensitivities of the aggregate recoverable amounts of property, plant and equipment and right-of-use assets for the following changes to assumptions and would have the inverse effect on the aggregate impairments recognised:

	2021		2020	
	Increase	**Decrease**	Increase	Decrease
5% change in the net cash flows	**12 460**	**(13 239)**	9 124	(14 918)
25bps change in the terminal growth rate	**–**	**(71)**	2 821	(2 697)
50bps change in the discount rate	**(809)**	**–**	(13 917)	9 455
50 bps change in the capitalisation rate	**(7 130)**	**7 470**	–	–
5% change in the fair value less cost to sell values	**29 074**	**(32 711)**	22 601	(32 346)

4.2 Impairment of goodwill

The recoverable amount of goodwill related to the individual Courtyard Hotels cash generating units (CGUs) was considered at the same time as the impairment assessment of hotels property, plant and equipment, and right-of-use assets as described above was performed.

The impairment loss of R10.6 million has arisen on Courtyard Hotels following the continued impact of the Covid-19 pandemic on trading operations and the fair value less cost to sell of the CGUs.

4.3 Impairment of other assets

VAT receivable in Tanzania has been impaired by R25.9 million, based on VAT assessment letter received from the Tanzanian Revenue Authority, which disallows some portion of the VAT refund due. The recoverability of the total VAT refund due is being investigated by local tax consultants, based on the assessment received.

Notes to reviewed condensed consolidated financial statements continued

for the year ended 30 June 2021

5. Disposal groups held for sale

In July 2021, the group entered into two sale of share transactions for the disposal of 100% of shares in Fairview Hotel Limited in Kenya, and the disposal of 100% of shares in CLHG Tanzania Limited, in Tanzania (refer to note 15). The operations of these companies are included in the 'Central office and other' segment for operational purposes, and 'Rest of Africa' segment for geographical information as reported in note 11 *Segment analysis*. Management has considered the requirements in IFRS 5 for disposal groups to be classified as available for sale and are satisfied that they have been met at 30 June 2021. Accordingly, these subsidiaries are presented as disposal groups held for sale. The disposals are subject to the fulfilment of customary conditions precedent, including approvals or consent from competition or anti-trust authorities to the extent legally required, within 22 weeks from the date of signature.

As at 30 June 2021, the disposal groups comprised assets of R454.0 million less liabilities of R83.7 million, detailed as follows:

R000	2021
Assets held for sale	**453 967**
Property, plant and equipment	**359 919**
Right-of-use assets	**53 770**
Deferred tax assets	**20 093**
Current assets	**5 508**
Cash and cash equivalents	**14 677**
Liabilities directly associated with assets held for sale	**(83 702)**
Lease liabilities	**(61 101)**
Trade and other payables	**(9 794)**
Deferred tax liabilities	**(12 807)**
Net assets held for sale	**370 265**

An impairment loss of R300 million on property, plant and equipment, and reversal of impairments of R22.6 million on right-of-use assets were accounted for prior to classifying the operations as disposal groups held for sale. In addition, an impairment of other assets of R25.9 million has been recognised following the receipt of an assessment from the Tanzania Revenue Authority disallowing a portion of VAT refunds due, and a further impairment of R32.5 million to deferred tax asset has been recognised based on the assessment of its recoverability in Tanzania.

A further impairment loss of R9.6 million has been recognised, writing down the carrying amount of the disposal group to its fair value less costs to sell.

6. Stated capital

In July 2020, the company converted its ordinary shares from par value shares of 10 cents each to no par value shares. The company also increased its authorised share capital by a further 9 950 000 000 shares to a total of 10 billion authorised shares for the purposes of the Rights Offer.

In August 2020, the company completed a rights offer which entitled qualifying shareholders 13 rights for every one existing City Lodge ordinary share held at a subscription price of R2.12. The company issued 566 460 609 ordinary shares.

Additionally in February 2021, the company acquired and delisted 175 000 ordinary shares at a consideration price of R3.28 from a dissenting shareholder.

7. Interest-bearing borrowings

R000	2021	2020
The Loan C is a revolver facility of R400 million (2019: R300 million) in total and bears interest at the one, three or six-month JIBAR plus 2.75 (2019: 2.10) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 31 August 2023.	**350 000**	300 000
The Loan D is a term loan facility of R200 million (2019: R450 million) in total and bears interest at the one, three or six-month JIBAR plus 2.65 (2019: 2.10) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 31 December 2022.	**200 000**	450 000
The Loan E was a term loan facility of R200 million secured in June 2020, and repayable on completion of the rights offer. R30 million was drawn in August 2020. The loan was settled in full from the proceeds of the rights offer.	**–**	–
The Loan F is a term loan facility – bridge to asset sale of R100 million in total and bears interest at the one-month JIBAR plus 3.25 percentage points. Final maturity is 21 September 2022.	**100 000**	–
The Loan G is a revolver loan facility of R100 million in total and bears interest at the one-month JIBAR plus 3.25 percentage points. Final maturity is 21 September 2022. The facility remains undrawn.	**–**	
	650 000	750 000

The movement in interest-bearing borrowings during the year is as follows:

R000	2021	2020
Balance at the beginning of the year	**750 000**	660 000
Borrowings raised	**180 000**	90 000
Borrowings repaid	**(280 000)**	–
Interest charged	**37 125**	59 825
Interest paid	**(36 120)**	(63 915)
	651 005	745 910
Balance at the beginning of the year – interest	**1 398**	5 488
Interest accrued included in sundry accruals	**(2 403)**	(1 398)
Balance at the end of the year	**650 000**	750 000

Notes to reviewed condensed consolidated financial statements continued

for the year ended 30 June 2021

8. BEE liabilities

As at 14 December 2020 the company using the proceeds from the rights offer, acquired 99.99% of the ordinary shares in the BEE special purpose vehicles (SPVs). The BEE SPVs applied the proceeds from the share issue to settle the outstanding interest-bearing borrowings, preference shares and accrued interest and dividends totalling R770.9 million.

In addition, the BEE shareholder, Vuwa Investments Proprietary Limited, waived the repayment of the shareholder's loan of R50 million.

9. 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.

10. Revenue

The group derives revenue at a point in time, together with its customer reward programmes 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:

R000	Year ended 30 June 2021	Year ended 30 June 2020
Accommodation	**432 719**	990 556
Food and beverage	**66 544**	154 316
Other revenue	**8 553**	14 411
	507 816	1 159 283
Primary geographical markets		
South Africa	**469 791**	1 047 348
Rest of Africa	**38 025**	111 935
	507 816	1 159 283

11. 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

	City Lodge Hotel		Town Lodge		Road Lodge		Courtyard Hotel		Central office and other		Total	
R000	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Revenue	**257 224**	600 159	**65 832**	171 107	**126 122**	224 906	**20 613**	51 176	**38 025**	111 935	**507 816**	1 159 283
(Loss)/profit from operating activities	**14 109**	239 069	**(31 139)**	32 935	**9 635**	73 467	**(22 798)**	1 148	**(314 156)**	(239 683)	**(344 349)**	106 936
Depreciation and amortisation	**13 251**	20 853	**8 678**	8 991	**10 951**	11 410	**3 258**	3 524	**83 821**	86 378	**119 959**	131 156
Depreciation – leases	**–**	–	**–**	–	**–**	–	**–**	–	**85 894**	92 302	**85 894**	92 302
Adjusted EBITDA	**27 360**	259 922	**(22 461)**	41 926	**20 586**	84 877	**(19 540)**	4 672	**(144 441)**	(61 003)	**(138 496)**	330 394
Land and hotel building rental	**–**	–	**–**	–	**–**	–	**–**	–	**1 784**	5 793	**1 784**	5 793
Adjusted EBITDAR	**27 360**	259 922	**(22 461)**	41 926	**20 586**	84 877	**(19 540)**	4 672	**(142 657)**	(55 210)	**(136 712)**	336 187

Geographical information

	South Africa		Rest of Africa		Total	
R000	2021	2020	2021	2020	2021	2020
Revenue	**469 791**	1 047 348	**38 025**	111 935	**507 816**	1 159 283
Property, plant and equipment (non-current and current)	**1 359 339**	1 398 885	**672 504**	1 110 867	**2 031 843**	2 509 752
Right-of-use assets (non-current and current)	**932 979**	874 775	**119 053**	110 053	**1 052 032**	985 014

Notes to reviewed condensed consolidated financial statements continued

for the year ended 30 June 2021

12. Standards and interpretations issued not yet effective

The group does not anticipate that any standards, interpretations or amendments to existing standards that have been published and are mandatory for the group's accounting periods beginning on or after 1 July 2021 or later periods, which the group has not early adopted, would have a material impact on the group.

13. Capital commitments

As at 30 June 2021, the directors had authorised a total of R163.0 million for maintenance and expansion capital items, of which R49.3 million is committed and is anticipated to be spent by 30 June 2022. R25.6 million of the committed capital expenditure has been contracted. Given the uncertainty created by the Covid-19 pandemic, the remaining R113.7 million of authorised spend has been put on hold.

14. Contingent liabilities

The group has no significant contingent liabilities as at 30 June 2021.

15. Subsequent events

On July 23rd, 2021, the group announced the proposed disposal of its East Africa hotel operations. The disposal of 100% shareholding in Fairview Hotel Limited in Kenya, comprising three hotels, will be disposed of for an aggregate consideration of R140.9 million. The disposal of 100% shareholding in CLHG Tanzania Limited in Tanzania, comprising one hotel, will be disposed of for an aggregate consideration of R1 million. Both disposals are to subsidiaries of Actis Africa Real Estate 3 LP, a leading global investor in sustainable real estate and infrastructure. Immediately after the shares in CLHG Tanzania Limited are acquired, CLHG Tanzania Limited will repay its shareholder loan claims of R318.2 million to City Lodge Hotels (Africa) Pty Ltd. The disposals are subject to the fulfilment of customary conditions precedent, including approvals or consent from competition or anti-trust authorities to the extent legally required, within 22 weeks from the date of signature. The proposed disposals have been recorded as 'Assets held for sale' in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* in the condensed consolidated financial statements for the year ended 30 June 2021.

City Lodge is currently engaging with loss adjustors in respect of business interruption claims directly associated with hotel closures related to the Covid-19 pandemic. There is currently significant uncertainty on the outcome of the investigations by insurers, and whether our claim will be settled. Any proceeds received in terms of business interruption claims will contribute to the group's liquidity. The South African operations have a policy limit of R20 million.

The directors are not aware of any other matter or circumstances arising since the reporting date.

16. Going concern

The condensed consolidated financial statements for the year ended 30 June 2021 are prepared on the going concern basis. Based on cash flow forecasts, available funding facilities and other measures the group has taken or plans to take, management believes that the group has sufficient liquidity to meet its obligations and continue operations.

The group has incurred a net loss for the year ended 30 June 2021 of R804.6 million (2020: R486.6 million). The losses were mainly attributable to the restricted trading operations due to the pandemic and government restrictions and regulations across the world to contain the spread of infections which limited travel and social interactions, and impairment of property, plant and equipment of R390.4 million based mainly on the fair value less cost to sell hotels mostly outside of South Africa. The impact of the prolonged economic recovery from the Covid-19 pandemic and the resurgent waves of infections has impacted the length of time it will take to return to pre-Covid-19 levels of operations and break-even. As at 30 June 2021, the group has a net cash and cash equivalents overdraft of R69.5 million (2020: R19.0 million). Current liabilities exceeded its current assets (excluding assets held for sale) by R130 million (2020: R788.9 million) relating primarily to the bank overdraft position, and increase in current portion of lease liabilities.

In preparing the cash flows utilised to assess going concern, in addition to the forecast impact of Covid-19 on operational performance, management also considered the following pipeline and active measures:

- The proceeds and planned application of the sale of East African operations.
- Continuous turnaround strategic review of all poor performing hotels.
- Maintaining the cost containment measures put in place since April 2020, where appropriate, while liquidity remains constrained.
- The group has secured an additional R100 million term loan facility from its lenders, in addition to the existing available debt facilities of R50 million; and also agreed a 12-month extension to the repayment terms of Loan F.
- In exchange for the additional facility and the waiver of the original debt covenants for all measurement periods up to September 2022, lenders have introduced revised Loan to Value covenants and liquidity thresholds measured quarterly. The group forecasts to meet these new covenant requirements.

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.

Notes to reviewed condensed consolidated financial statements continued

for the year ended 30 June 2021

17. Dividend

Given the prolonged impact of the Covid-19 pandemic and the resurgence of new waves of infections on the group's operations and revenue, the board has determined that no final dividend shall be paid in the respect of the year ended 30 June 2021. The declaration of future dividends remains subject to satisfying solvency and liquidity requirements.

The JSE Link to the announcement is https://senspdf.jse.co.za/documents/2021/jse/isse/CLH/ye2021.pdf.

For and on behalf of the board

Bulelani Ngcuka
Chairman

Andrew Widegger
Chief executive officer

9 September 2021

Administration

City Lodge Hotels Limited

Incorporated in the Republic of South Africa
Registration number: 1986/002864/06
Share code: CLH
ISIN: ZAE000117792

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*, S Enderle#

**Executive †Kenyan #South African and Swiss*

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, a division of Nedbank Limited www.clhg.com

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