EMBRACING WELLNESS

COURTYARD HOTEL | CITY LODGE HOTEL | TOWN LODGE BY CITY LODGE HOTELS | ROAD LODGE BY CITY LODGE HOTELS

CITY LODGE HOTEL GROUP

CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND CASH DIVIDEND DECLARATION

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

EMBRACING WELLNESS

Revenue
R848m
2021: R436m

Average group occupancies
57%
2021: 30%

EBITDAR
R304m
2021: R125m

Earnings/(loss) per share
17c
2021: (6c)

Headline earnings/(loss) per share
17c
2021: (6c)

Dividends declared per share
5c
2021: Nil

COMMENTARY

The new financial year saw the tapering off of direct pandemic-related impacts to our operations, and the continued recovery of revenue lost during the past two years through wide ranging innovation.

Continued recovery from the Covid-19 pandemic has seen improved numbers of foreign tourists visiting South Africa, in addition to an increase in domestic business and leisure travel. In December 2022, StatsSA reported 677 838 foreign tourists, significantly up (158%) from the 263 108 foreign tourists reported in December 2021. This is still well below December 2019 numbers (981 038) but the trend is promising.

We are pleased to report sustained growth in average occupancies, with the second quarter's occupancy rates well in excess of 2019 (pre-pandemic) levels. December 2022 monthly occupancies in South Africa closed at 62%, compared to 50% in 2019. Group average occupancies for the six months ended 31 December 2022 were 57% (2021: 30%) and 58% (2021: 32%) for South African hotels compared to 57% in 2019. Average room rates in South Africa for the six months have increased by 10% compared to 2021, but remain only 1% above 2019.

In South Africa, business has been hampered by crippling electricity loadshedding and the knock-on effect of interruptions to water supply and higher cost of operations in general. These interruptions, including the war in Ukraine, have steadily impacted the supply chain, resulting in longer lead times and higher prices, which contributed to the increase in operational costs, and the delays to planned capital investment projects.

FINANCIAL REVIEW

Total revenue for the six months ended 31 December 2022 increased by 94% to R848 million (2021: R436 million), driven by the steady return of guests with a renewed fervour for travel and hospitality in both the leisure and business markets. The roll-out of the new food and beverage offering at Town Lodge and Road Lodge, as well as service and menu enhancements at City Lodge branded hotels has delivered a 132% increase in food and beverage revenue, which now comprises 16% of total revenue. The group welcomed the receipt of the settlement of the Covid-19 business interruption claim of R27 million, which is included in other income.

The improved occupancies and the return to normal trading conditions, has also contributed to the increase in operating costs. Salaries and wages increased by 43% to R230.3 million, as the prior year included 30% salary reductions. Property costs increased by 25% mainly attributable to the increase in utility prices together with the increase to the variable portion of these costs arising from greater occupancy volumes. The cost of running the generators during power outages, increased to R7.4 million from R0.9 million in the prior period.

Other operating costs have increased by 200% to R261.4 million compared to R87.1 million in the prior six months. However, excluding unrealised foreign exchange gains on intercompany loans (December 2022: R8 million and December 2021: R66.5 million), other operating costs has increased by 75%. The increases are associated with variable direct cost increases and the relaxation of the strict cost management measures instituted during the pandemic. These relaxation measures include a normalised repairs and maintenance schedule for the hotels, renewed investment in advertising and marketing which has delivered some award-winning radio adverts over the summer, and the overall return of variable expenditure associated with a return of corporate travellers and travel agents. Other operating costs per room sold, excluding unrealised foreign exchange gains has reduced by 13%.

The group generated EBITDAR for the six months of R303.8 million which is an improvement of 143% (2021: R124.9 million), and an improved EBITDAR margin of 35.8% (2021: 28.7%). EBITDAR margin excluding unrealised foreign currency gains and losses is 34.9% (2021: 13.4%).

COMMENTARY CONTINUED

The improvement in trading conditions has delivered a profit after tax of R97.9 million from a loss of R33.8 million in the prior period, and diluted and undiluted earnings per share of 17 cents (2021: loss per share 6 cents).

Similarly, headline earnings per share is 17 cents per share, compared to a loss of 6 cents per share in the prior period. Headline earnings per share, excluding the settlement of the Covid-19 business interruption claim, is 14 cents per share.

The receipt of the proceeds from the sale of the East African operations in July 2022 of R467.2 million, and the cash generated by operations of R260.4 million (2021: R13.1 million), has enabled the group to repay R300 million of its total R600 million interest-bearing borrowings facilities. The group has a cash and cash equivalent balance as at 31 December 2022 of R247.9 million (2021: overdraft of R50.9 million). The group continues to have access to the R300 million undrawn interest-bearing borrowing facilities and the R115 million overdraft facility. The loan covenants have been met for all measurement periods during the reporting period.

Due to the much improved liquidity position and the promising outlook, the board has declared an interim cash dividend of 5c per share (2021: Nil).

Net asset value per share is 188c (2021: 151c), and net replacement asset value per share, based on the insured value of the hotels, is 1060c, compared to 1100c in the prior year, which included the four East African hotels disposed of in June 2022.

STRATEGIC DEVELOPMENTS

The pandemic has revealed a new demographic of guest, largely newcomers to the tourism industry and those keen to explore their own country, and with four brands to choose from, we are well placed to attract that market. In addition, we have demonstrated agility in expanding our offering to meet the needs of the growing leisure market, in addition to enhancing our offering for the benefit of our regular bleisure and business travellers.

Innovation from our food and beverage offering has greatly assisted us in attracting new markets such as domestic leisure travellers. What was originally driven by guests wanting to avoid leaving their hotel for meals during the pandemic, has quickly become part of our standard offering. Last year, we completed the rollout of lunch and dinner menus, in addition to the already popular breakfast buffets, at all Town Lodges and Road Lodges. In the last six months we have revamped the lunch and dinner menus at City Lodge Hotels and Courtyard Hotels, and new for 2023 is the launch of our fabulous cocktail and drinks menus.

Best available rate (BAR) continues to reap rewards in delivering revenue growth, allowing our hotels to optimise rates during periods of high demand and in turn, offering competitive, best value promotional pricing during low demand periods. As we emerge from the pandemic, there is more consistency in buying patterns and routine demand and we are deriving maximum benefit from our AI investment, as forecast patterns are being revealed.

Refurbishment programmes have re-commenced to ensure our products are in tip top condition. City Lodge Hotel at OR Tambo International Airport successfully completed its kitchen extension including equipment installation in September 2022, and now offers food and beverage solutions to guests 24-hours a day. This includes an a la carte menu, buffet offering, and in-room dining.

Courtyard Hotel Waterfall City completed the fit-out of the remaining four floors in mid-December 2022, adding 68 Studio Rooms and six Junior Suites to this enormously popular hotel. The hotel now has a total of 152 Studio Rooms, four Executive Suites and six Junior Suites. The refurbishment at Road Lodge Richards Bay started in January 2023 and is expected to be completed by the end of April 2023. City Lodge Hotel V&A Waterfront will commence its big revamp of bedrooms and commercial areas in April 2023, with completion expected by the end of October 2023.

Our environmental sustainability journey is gathering momentum to mitigate against the ongoing energy and water scarcity, with more of our hotels earmarked for solar solutions and four more borehole installations scheduled for this year, to give our guests a seamless experience and ensure improved business resilience.

The group has improved its B-BBEE rating to a level 3 in the current year, from a level 5 in the prior year. As operating activities improve we have renewed our support and investment in transformation initiatives within our communities, and also invested in the development of the future workforce from training and practical experience offered through the youth employment scheme (YES program).

OUTLOOK

Consumers' budgets are stretched by the higher prices of groceries, petrol price fluctuations, and the increased interest rate. This, on top of high unemployment, poverty, crime and corruption is pointing to cost-of-living challenges to come, leading to a risk of stagflation and a period of economic hardship, and lower household disposable income.

However, inflation is expected to return to the SA Reserve Bank's target levels of 3 – 6%, and is forecast to average 6.1% in 2023, a Bureau for Economic Research survey shows. This, together with petrol price stabilisation will bring some consumer relief.

Despite these dismal macro-economic factors, occupancy growth remains encouraging with group occupancy for January 2023 of 43% (January 2022 – 31%), and up to 23 February 2023 of 59% (February 2022 – 45%).

Our guests will be looking for hotels with a seamless operating environment, in which they can run their business and personal lives online hassle-free, enjoy delicious and contemporary food and beverages, meet and relax. They will be after great rates and good deals, which our technology tools help us deliver on. And they will be expecting service excellence from check-in to check-out which will be delivered by our friendly, professional staff. City Lodge Hotel Group delivers on a range of guest requirements, needs and budgets, but underpinning all of this is our core motto, that we are "People Caring for People".

DECLARATION OF ORDINARY CASH DIVIDEND

The board has approved and declared interim dividend (number 63) of 5.0 cents per ordinary share (gross) (2021: Nil) in respect of the six months ended 31 December 2022.

The dividend will be subject to Dividend Tax. In accordance with paragraphs 11.17(a)(i) to (ix) and 11.17(c) of the JSE Listings Requirements the following additional information is disclosed:

- The dividend has been declared out of income reserves;
- The local Dividend Tax rate is 20% (twenty per centum);
- The gross local dividend amount is 5.0 cents per ordinary share for shareholders exempt from the Dividend Tax;
- The net local dividend amount is 4.0 cents per ordinary share for shareholders liable to pay the Dividend Tax;
- The company currently has 609 859 502 ordinary shares in issue; and
- The company's income tax reference number is 9041001711.

Shareholders are advised of the following dates:

Last date to trade cum dividend	Tuesday, 14th March 2023
Shares commence trading ex dividend	Wednesday, 15th March 2023
Record date	Friday, 17th March 2023
Payment of dividend	Monday, 20th March 2023

Share certificates may not be dematerialised or rematerialised between Wednesday, 15 March 2023 and Friday, 17 March 2023, both days inclusive.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R000	Note	31 December 2022	31 December 2021	(Audited) 30 June 2022
ASSETS				
Non-current assets		**2 604 331**	2 681 146	2 662 149
Property, plant and equipment		**1 560 694**	1 659 409	1 576 876
Right-of-use assets		**1 002 129**	953 640	1 040 867
Intangible assets and goodwill		**30 538**	37 125	33 659
Investments		**800**	800	800
Deferred taxation	5	**10 170**	30 172	9 947
Current assets		**439 467**	605 641	620 071
Inventories		**6 506**	4 141	5 043
Trade receivables		**73 229**	31 544	47 164
Other receivables[1]		**111 855**	108 654	560 964
Taxation		**–**	667	159
Cash and cash equivalents		**247 877**	4 027	6 741
		439 467	149 033	620 071
Assets held for sale		**–**	456 608	–
Total assets		**3 043 798**	3 286 787	3 282 220
EQUITY				
Capital and reserves		**1 074 450**	861 442	975 281
Stated capital		**1 324 717**	1 324 717	1 324 717
Treasury shares		**(507 669)**	(507 669)	(507 669)
Other reserves		**67 817**	68 188	66 546
Retained earnings		**189 585**	(23 794)	91 687
LIABILITIES				
Non-current liabilities		**1 671 731**	1 759 875	1 759 765
Interest-bearing borrowings	6	**300 000**	400 000	400 000
Lease liabilities	7	**1 321 561**	1 353 350	1 338 594
Provisions		**9 696**	–	8 696
Deferred taxation	5	**40 474**	6 525	12 475
Current liabilities		**297 617**	665 470	547 174
Trade and other payables		**252 952**	162 321	245 122
Interest-bearing borrowings	6	**–**	320 000	200 000
Lease liabilities	7	**41 672**	24 903	35 964
Taxation		**2 993**	–	–
Bank overdraft		**–**	66 632	66 088
		297 617	573 856	547 174
Liabilities directly associated with assets held for sale		**–**	91 614	–
Total liabilities		**1 969 348**	2 425 345	2 306 939
Total equity and liabilities		**3 043 798**	3 286 787	3 282 220

[1] *Other receivables for the year ended 30 June 2022, includes gross consideration receivable for the disposal of shares and shareholder loan claims for the East African operations, of which R467.2 million was received in July 2022, and a further R12.1 million was received in January 2023.*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

R000	Note	Six months ended 31 December 2022	% change	Six months ended 31 December 2021	(Audited) Year ended 30 June 2022
Revenue	8	**847 644**	94	436 012	1 103 913
Other income[1]		**30 895**		2 162	5 880
Expected credit loss on trade and other receivables		**(3 232)**		(209)	3 920
Salaries and wages[2]		**(230 276)**	43	(160 637)	(372 662)
Property costs[2]		**(84 445)**	25	(67 588)	(143 547)
Other operating costs[2]		**(261 409)**	200	(87 148)	(299 672)
Depreciation and amortisation		**(47 108)**		(45 729)	(90 545)
Depreciation – right-of-use assets		**(43 811)**		(45 516)	(90 153)
Impairment loss on property, plant and equipment		**–**		–	(63 562)
Impairment reversal on right-of-use assets		**–**		–	120 739
Operating profit	9	**208 258**	564	31 347	174 311
Profit on disposal of East African operations		**–**		–	88 275
Interest income		**3 723**		597	824
Interest expense		**(73 157)**		(89 614)	(179 482)
Profit/(loss) before taxation		**138 824**	341	(57 670)	83 928
Taxation		**(40 926)**		23 919	(2 198)
Profit/(loss) for the year	10	**97 898**	390	(33 751)	81 730
Other comprehensive income					
Items that are or may be reclassified to profit and loss					
Foreign currency translation differences (non-taxable)		**71**		(43 301)	(43 866)
Realisation of foreign currency translation reserve on disposal of East African operations		**–**		–	(8 578)
Total comprehensive income/(loss) for the year		**97 969**	227	(77 052)	29 286
Basic earnings/(loss) per share (cents)	10	**17.1**	390	(5.9)	14.3
Basic diluted earnings/(loss) per share (cents)	10	**17.0**	390	(5.9)	14.3

[1] *Other income includes the settlement of the Covid-19 business interruption claims received of R27 million.*
[2] *The comparative for the six months ended 31 December 2021 have been re-presented. Refer to note 1.2.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R000	Note	Six months ended 31 December 2022	Six months ended 31 December 2021	(Audited) Year ended 30 June 2022
Cash generated by operations	11	**260 398**	13 123	265 802
Interest received		**3 723**	597	824
Interest paid[1]		**(13 165)**	(24 863)	(54 749)
Interest paid – leases		**(59 961)**	(63 553)	(127 014)
Taxation (paid)/refunded		**(9 949)**	36 561	37 121
Cash inflows/(outflows) from operating activities		**181 046**	(38 135)	121 984
Cash inflows/(outflows) from investing activities		**447 444**	(2 432)	(37 407)
Investment to maintain property, plant and equipment		**(11 329)**	(2 432)	(10 050)
Investment to expand property, plant and equipment		**(8 385)**	–	(6 024)
Proceeds on disposal of East Africa		**467 158**	–	–
Cash transferred on disposal of East Africa operations		**–**	–	(21 333)
Cash (outflows)/inflows from financing activities		**(321 372)**	57 787	(75 486)
Capital repayments of lease liabilities		**(16 535)**	(12 213)	(25 486)
Proceeds from interest-bearing borrowings		**–**	70 000	70 000
Purchase of incentive scheme shares		**(4 837)**	–	–
Repayment of interest-bearing borrowings		**(300 000)**	–	(120 000)
Net increase in cash and cash equivalents		**307 118**	17 220	9 091
Cash and cash equivalents at the beginning of the year		**(59 347)**	(69 497)	(69 497)
Effect of movements in exchange rates on cash held		**106**	1 292	1 059
Cash and cash equivalents at the end of the year		**247 877**	(50 985)	(59 347)

[1] *Interest expense reduction is due to the reduction in interest-bearing borrowings in the current year, and the improved interest rates following the loan refinancing at 30 June 2022.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

R000	Stated capital	Treasury shares	Other reserves	Retained earnings	Total
Balance at 30 June 2021	1 324 717	(510 928)	112 611	9 957	936 357
Total comprehensive income for the period	–	–	(43 301)	(33 751)	(77 052)
Loss for the period	–	–	–	(33 751)	(33 751)
Other comprehensive income					
Foreign currency translation differences	–	–	(43 301)	–	(43 301)
Transactions with owners, recorded directly in equity	–	3 259	(1 122)	–	2 137
Incentive scheme shares	–	3 259	(3 259)	–	–
Share compensation reserve	–	–	2 137	–	2 137
Balance at 31 December 2021	1 324 717	(507 669)	68 188	(23 794)	861 442
Total comprehensive income for the period	–	–	(9 143)	115 481	106 338
Profit for the period	–	–	–	115 481	115 481
Other comprehensive income					
Foreign currency translation differences	–	–	(9 143)	–	(9 143)
Transactions with owners, recorded directly in equity	–	–	7 501	–	7 501
Share compensation reserve	–	–	7 501	–	7 501
Balance at 30 June 2022	**1 324 717**	**(507 669)**	**66 546**	**91 687**	**975 281**
Total comprehensive income for the period	**–**	**–**	**71**	**97 898**	**97 969**
Profit for the period	**–**	**–**	**–**	**97 898**	**97 898**
Other comprehensive income					
Foreign currency translation differences	**–**	**–**	**71**	**–**	**71**
Transactions with owners, recorded directly in equity	**–**	**–**	**1 200**	**–**	**1 200**
Incentive scheme shares	**–**	**–**	**(4 837)**	**–**	**(4 837)**
Share compensation reserve	**–**	**–**	**6 037**	**–**	**6 037**
Balance at 31 December 2022	**1 324 717**	**(507 669)**	**67 817**	**189 585**	**1 074 450**

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

1. Basis of preparation

1.1 Basis of preparation

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2022 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for interim reports and the requirements of the Companies Act of South Africa. The Listings Requirements require interim 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 unaudited consolidated interim financial statements are in terms of IFRS and are consistent with those applied in the most recent audited annual financial statements. The condensed unaudited consolidated interim financial statements should be read in conjunction with the audited annual financial statements for the year ended 30 June 2022.

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2022 have been presented on the historical cost basis, and are presented in South African Rand, which is City Lodge's functional and presentation currency.

These condensed unaudited consolidated interim 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 by the directors who take full responsibility for the preparation of the interim report.

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2022 have not been audited or reviewed by the company's auditors, PricewaterhouseCoopers Inc.

1.2 Re-presentation of the statement of comprehensive income

In preparation of the audited financial statements for the year ended 30 June 2022, management removed certain subtotals and disaggregated lines from the prior period reported statement of comprehensive income. The following sub-totals and disaggregated line items were removed:

- subtotal before depreciation and amortisation;
- subtotal results from operating activities;
- the disaggregation of the net impairment loss on property, plant and equipment between the disposal groups held for sale and other assets; and
- the disaggregation of the impairment reversal on right-of-use assets between the disposal groups held for sale and other assets.

All these line items were clearly explained in the notes to the consolidated financial statements in the prior year.

Further to the changes above, a decision was made to disclose salaries and wages, and property costs as a separate line. For the six months ended 31 December 2021, salaries and wages of R133.5 million were previously included in operating costs excluding depreciation and amortisation, and in administration and marketing costs of R27.1 million. Property costs of R67.6 million were previously included in operating costs excluding depreciation and amortisation. The result of this change is that the remaining administration and marketing costs of R12.1 million presented as a separate line in the past is aggregated within other operating costs, resulting in other operating costs reducing from R276.1 million to R87.1 million.

The reasons for the re-presentation are due to:

- management being of the view that this declutters the face of the statement of comprehensive income and is more understandable for the users of the financial statements;
- this is to present the statement of comprehensive income to be more aligned to a "by Nature" presentation as per IFRS; and
- to address the themes contained in the JSE Proactive Monitoring report.

2. Standards issued not yet effective

Management has reviewed accounting standards issued and not yet effective and these are not expected to have a material impact on the group.

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.

Impairments

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 affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairments requires the significant areas of estimation, uncertainty and critical judgements, in applying accounting policies which have the most significant effect on the amounts recognised in the financial statements. Refer to note 4.

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. Refer to note 5.

4. Impairments

Management has assessed the group's goodwill, property, plant and equipment and right-of-use assets for impairment by reviewing the operating results which are an improvement to the forecasted cashflows used to calculate value in use and fair value less cost of disposal in the prior year. The recovery following the pandemic has accelerated faster than expected. Technical inputs considered include hotel occupancies, revenue growth, high inflation, and the increase in the 10-year bond yields and its associated impact on discount rates and terminal growth rates over the last six months. However, the conclusion reached based on these estimates, is that the increased cash flows from improved trading performance largely offset the increase in discount rates.

Accordingly, management is of the view that the carrying values of goodwill, property, plant and equipment and right-of-use assets are fairly stated at 31 December 2022 and no additional impairments or impairment reversals are required. The impairment assessments of goodwill, property, plant and equipment, and right-of-use assets will be revised at year end to take into account any changes in the technical inputs and the impact that changing conditions may have on the estimated future cash flows.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

5. Deferred taxation

R000	31 December 2022	31 December 2021	(Audited) 30 June 2022
Movement in deferred taxation assets			
Balance at the beginning of the period	**9 947**	29 102	29 102
Charged to profit or loss[1]	**174**	2 491	(19 077)
Change in corporate tax rate[2]	**–**	–	(108)
Foreign exchange movement	**49**	200	30
Reclassification to assets held for sale	**–**	(1 621)	–
Balance at the end of the period	**10 170**	30 172	9 947
Movement in deferred taxation liabilities			
Balance at the beginning of the period	**12 475**	28 293	28 293
Charged to profit and loss	**27 999**	(21 768)	(17 537)
Change in corporate tax rate[2]	**–**	–	33
Acquisition through business combinations	**–**	–	1 686
Balance at the end of the period	**40 474**	6 525	12 475

The expected manner of recovery of deferred tax asset and settlement of the liability will be through use.

1 *The deferred tax asset in the Namibian subsidiary has been impaired by R20.0 million, due to the slower than anticipated recovery following the Covid-19 set-back and it is estimated that there would not be sufficient taxable income in the medium term against which the deductible temporary differences can be used.*

2 *On 23 February 2022, the Minister of Finance of South Africa announced a 1% decrease in the corporate tax for all companies with a tax year ending on or after 31 March 2023. The new tax rate of 27% was substantively effected by 30 June 2022 and has therefore been applied to all deferred tax balances that are expected to reverse after 1 July 2022.*

6. Interest-bearing borrowings

R000	31 December 2022	31 December 2021	(Audited) 30 June 2022
The Loan C was a revolver facility of R400 million in total. The total outstanding loan capital of R400 million was extinguished on 30 June 2022.	**–**	400 000	–
The Loan D was a term loan facility of R200 million in total. The loan was extinguished on 30 June 2022.	**–**	200 000	–
The Loan F was a term loan facility – bridge to asset sale of R100 million in total. The loan was extinguished on 30 June 2022.	**–**	100 000	–
The Loan G was a revolver loan facility of R100 million in total. The drawn loan of R20 million was extinguished on 30 June 2022.	**–**	20 000	–
Loan Facility 1 is a revolver facility of R150 million in total and bears interest at the one month JIBAR plus margins ranging between 1.95% and 2.35% based on covenants. The facility was repaid in July 2022, and remains available for future draw-downs. Outstanding loan capital is repayable on 30 June 2025.	**–**	–	150 000
Loan Facility 2 is a term loan facility of R300 million in total and bears interest at the three-month JIBAR plus margins ranging between 2.10% and 2.50% based on covenants. Outstanding loan capital is repayable on 30 June 2026.	**300 000**	–	300 000
Loan Facility 3 is a revolver facility of R150 million in total and bears interest at the one month JIBAR plus margins ranging between 2.2% and 2.7% based on covenants. The facility was repaid in July 2022, and remains available for future draw-downs. Outstanding loan capital is repayable on 30 June 2027.	**–**	–	150 000
	300 000	720 000	600 000
Less: Amounts to be repaid within one year	**–**	(320 000)	(200 000)
Non-current liabilities	**300 000**	400 000	400 000

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

R000	31 December 2022	31 December 2021	(Audited) 30 June 2022
Movement in interest-bearing borrowings during the period is as follows:			
Balance at the beginning of the period	**600 000**	650 000	650 000
Borrowings raised	**–**	70 000	670 000
Cash	**–**	70 000	70 000
Non-cash[1]	**–**	–	600 000
Borrowings repaid	**(300 000)**	–	(720 000)
Cash	**(300 000)**	–	(120 000)
Non-cash[1]	**–**	–	(600 000)
Interest charged	**13 013**	23 175	48 444
Interest paid	**(12 982)**	(21 977)	(50 724)
	300 031	721 198	597 720
Balance at the beginning of the period – interest	**123**	2 403	2 403
Interest accrued included in sundry accruals	**(154)**	(3 601)	(123)
Balance at the end of the period	**300 000**	720 000	600 000

The original covenants were waived for all measurement periods from June 2021 through to September 2022. The remaining covenants were met for all measurement periods during the six months ended 31 December 2022.

[1] *At the time of the debt refinancing, the debt was restructured in which the lenders provided new facilities with new financial terms, that resulted in a substantial modification of the former interest-bearing borrowing package. Thus the former debt was derecognised and new facilities recognised.*

7. Lease liabilities

R000	31 December 2022	31 December 2021	(Audited) 30 June 2022
Balance at the beginning of the period	**1 374 558**	1 390 107	1 390 107
Interest expenses accrued	**59 961**	63 553	127 014
Capital lease payments	**(16 535)**	(12 213)	(25 486)
Interest payments	**(59 961)**	(63 553)	(127 014)
Remeasurements	**4 877**	–	12 004
Effects of movement in exchange rates	**333**	8 537	8 978
Reclassification to liabilities directly associated with assets held for sale[1]		(8 178)	(11 045)
Balance at the end of the period	**1 363 233**	1 378 253	1 374 558
Lease liabilities recognised in the statement of financial position			
Non-current portion	**1 321 561**	1 353 350	1 338 594
Current portion	**41 672**	24 903	35 964
	1 363 233	1 378 253	1 374 558

[1] *Liabilities directly associated with assets held for sale have been disposed of in the sale of the East African operations.*

8. Revenue

The group derives revenue at a point in time, together with its customer reward programmes, which are earned as they are redeemed or expire. The group has contract liabilities from income received in advance and the customer reward programmes, which are included within trade and other payables.

Revenue increased by 94% compared to the prior period mainly due to the increase in trading activity and occupancies following the gradual easing of Covid-19 restrictions globally, increase in travel patterns across all source markets and re-opening of all hotels by February 2022. Food and beverage revenues increased by 132% benefitting from the introduction of the new Eat-In menu at all Road Lodges and Town Lodges which now offers a bespoke lunch and dinner menu, and an exciting roll-out of the new #Cafe menu at City Lodge Hotels.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

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

R000	Six months ended 31 December 2022	Six months ended 31 December 2021	(Audited) Year ended 30 June 2022
Accommodation	**695 335**	365 849	911 571
Food and beverage	**138 874**	59 905	166 631
Other revenue[1]	**13 435**	10 258	25 711
	847 644	436 012	1 103 913
Primary geographical markets			
South Africa	**814 968**	397 284	1 006 095
Rest of Africa	**32 676**	38 728	97 818
	847 644	436 012	1 103 913

[1] *Other revenue comprises conferencing, boardroom rentals, rent received and miscellaneous revenue.*

9. Reconciliation of operating profit to EBITDAR[1]

R000	Six months ended 31 December 2022	Six months ended 31 December 2021	(Audited) Year ended 30 June 2022
EBITDAR is made up as follows:			
Operating profit	**208 258**	31 347	174 311
Depreciation and amortisation	**47 108**	45 729	90 545
Depreciation – right-of-use assets	**43 811**	45 516	90 153
Property rentals	**4 624**	2 337	5 374
	303 801	124 929	360 383
Add/less: Exceptional[2] losses/(gains)			
Impairment loss on property, plant and equipment	**–**	–	63 562
Impairment reversal on right-of-use assets	**–**	–	(120 739)
EBITDAR	**303 801**	124 929	303 206

[1] *The group defines EBITDAR as earnings before interest, income tax, depreciation, amortisation, rent and related IFRS 16 rent adjustment, and exceptional items. EBITDAR is used by the group as measure of earnings from normal day-to-day operations.*

[2] *Exceptional items are considered to be those that are not within the normal day-to-day operations of the business and sufficiently material or unusual that they would distort the numbers if they were not adjusted. This would include headline adjustments.*

10. Supplementary information

R000	Six months ended 31 December 2022	% change	Six months ended 31 December 2021	(Audited) Year ended 30 June 2022
Headline earnings/(loss) reconciliation				
Profit/(loss) for the year used to calculated basic and diluted loss per share	**97 898**		(33 751)	81 730
Profit on disposal of East African operations	**–**		–	(88 275)
Change in corporation tax rate	**–**		–	2 022
Impairment loss on property, plant and equipment	**–**		–	63 562
Impairment reversal on right-of-use assets	**–**		–	(120 739)
Taxation effect	**–**		–	12 233
Headline earnings/(loss)	**97 898**	390	(33 751)	(49 467)
Basic earnings/(loss) per share (cents)			–	
– undiluted	**17.1**	390	(5.9)	14.3
– diluted	**17.0**	390	(5.9)	14.3
Headline earnings/(loss) per share (cents)				
– undiluted	**17.1**	390	(5.9)	(8.7)
– diluted	**17.0**	390	(5.9)	(8.6)

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

R000	Six months ended 31 December 2022	Six months ended 31 December 2021	(Audited) Year ended 30 June 2022
Weighted average number of shares – undiluted (000's)			
Total weighted average number of shares in issue – undiluted	**609 860**	609 860	609 860
Treasury shares	**(35 394)**	(35 394)	(35 394)
10th Anniversary Employees Share Trust treated as treasury shares	**(2 821)**	(2 821)	(2 821)
Weighted average number of shares in issue for undiluted EPS and HEPS calculation	**571 645**	571 645	571 645
Weighted average number of shares – diluted (000's)			
Total weighted average number of shares in issue – diluted	**612 698**	609 860	611 070
Treasury shares	**(35 394)**	(35 394)	(35 394)
10th Anniversary Employees Share Trust treated as treasury shares	**(2 821)**	(2 821)	(2 821)
Weighted average number of shares in issue for diluted EPS and HEPS calculation	**574 483**	571 645	572 855
Number of shares in issue (000's)			
Total number of shares in issue	**609 860**	609 860	609 860
Treasury shares	**(35 394)**	(35 394)	(35 394)
10th Anniversary Employees Share Trust treated as treasury shares	**(2 821)**	(2 821)	(2 821)
Net shares in issue	**571 645**	571 645	571 645
Net asset value per share[1]	**188**	151	171

[1] *Net asset value per share represents capital and reserves expressed as a percentage of net shares in issue. This is a non-GAAP measure and has been consistently applied from one year to the next.*

11. Note to the statement of cash flows

Cash generated by operations

R000	31 December 2022	31 December 2021	(Audited) 30 June 2022
Profit/(loss) before taxation	**138 824**	(57 670)	83 928
Adjusted for:			
– depreciation and amortisation	**47 108**	45 729	90 545
– depreciation – right-of-use asset	**43 811**	45 516	90 153
– impairment loss on property, plant and equipment	**–**	–	63 562
– impairment reversal on right-of-use assets	**–**	–	(120 739)
– interest income	**(3 723)**	(597)	(824)
– interest expense	**13 196**	26 061	52 468
– interest expense – leases	**59 961**	63 553	127 014
– profit on disposal of East African operations	**–**	–	(88 275)
– share-based payment expense	**6 037**	2 137	9 638
– unrealised foreign currency (gain)/loss	**(8 038)**	(66 476)	(78 874)
– other non-cash items	**1 000**	–	8 399
Operating cash flows before working capital	**298 176**	58 253	236 995
(Increase)/decrease in inventories	**(1 463)**	(894)	(958)
(Increase)/decrease in trade and other receivables	**(44 114)**	(29 721)	(35 519)
Increase/(decrease) in trade and other payables	**7 799**	(14 515)	65 284
	260 398	13 123	265 802

12. 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) (CODM) who have been identified as the group's executive directors. The CODM review the group's internal reporting by hotel brand in order to assess performance and allocate resources.

The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

The structure of the segmental analysis note has changed with effect from 30 June 2022.

Consistent with the prior year, the CODM assesses the performance of the operating segments based on revenue and EBITDAR (as defined in note 9). Interest income and interest expenses are not included in the results for each operating segment, as the cash and debt position is managed at a group level.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

12. Segment analysis continued

	Revenue[1]		EBITDAR[2]		EBITDAR margin (%)	
R000	31 December 2022	31 December 2021	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Courtyard Hotel	**61 060**	28 259	**15 597**	(135)	**25.5**	(0.5)
City Lodge Hotel	**454 352**	214 544	**206 651**	72 307	**45.5**	33.7
Town Lodge	**134 259**	59 814	**45 620**	9 478	**34.0**	15.8
Road Lodge	**165 297**	94 667	**59 412**	26 372	**35.9**	27.9
South Africa	**814 968**	397 284	**327 280**	108 022	**40.2**	27.2
Rest of Africa	**32 676**	38 728	**14 680**	62 364	**44.9**	161.0
Central office	**–**	–	**(38 159)**	(45 457)	**–**	–
Total	**847 644**	436 012	**303 801**	124 929	**35.8**	28.7

[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 to reconciliation of operating profit to EBITDAR in note 9.*

Geographical information

	South Africa		Rest of Africa		Total	
R000	31 December 2022	31 December 2021	31 December 2022	31 December 2021[3]	31 December 2022	31 December 2021
Revenue	**814 968**	397 284	**32 676**	38 728	**847 644**	436 012
Property, plant and equipment (non-current and current)	**1 244 492**	1 323 891	**316 202**	695 436	**1 560 694**	2 019 327
Right-of-use assets (non-current and current)	**911 501**	891 192	**90 628**	116 218	**1 002 129**	1 007 410

[3] *Revenue, property, plant and equipment and right-of-use assets includes balances for the Kenya and Tanzania entities for the six months 31 December 2021, and only the revenue balance for 30 June 2022 includes Kenya and Tanzania.*

13. Related party transactions

The group had no significant related party transactions during the year, nor did the group enter into any new significant related party transactions during this year.

14. Capital commitments

As at 31 December 2022, the group spent R19.7 million on expansionary and maintenance capex for the six months. The group has planned capital spend of R99.4 million for the remainder of the financial year, of which R62.2 million is committed. The majority of the capital expenditure relates to the City Lodge Hotel V&A Waterfront and Road Lodge Richards Bay refurbishment projects, and the sustainability investment projects for the solar and borehole installations.

15. Contingent liabilities

The group has no significant contingent liabilities as at 31 December 2022.

16. Subsequent events

In January 2023, the group received the final portion of the proceeds from the disposal of the East African operations of R12.1 million.

Other than the above, the directors are not aware of any matter or circumstance arising since the balance sheet date and the date of this report.

17. Liquidity and funding

As at 31 December 2022, the cash and cash equivalents balance was R247.9 million (2021: overdraft of R51.0 million). The group continues to have access to a total of R600.0 million debt facilities and the R115.0 million overdraft facility. R300.0 million of the available debt facilities and R115.0 million of the overdraft facility remain undrawn as at the 31 December 2022. The debt facilities mature between June 2025 and June 2027. The group has access to total liquidity and funding of R662.9 million.

In addition, the group has the ability to access a further R300 million accordian facilities, the terms of which have been included in the loan agreements from the 30 June 2022, but are subject to the funder's credit approval on application.

Debt covenants for all measurements periods during the period have been met. Based on current and forecasted improved trading levels, the directors believe that the group will continue to meet the covenants over the next 12 months.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

18. Going concern

The condensed consolidated interim financial statements for the six months ended 31 December 2022 are prepared on a going concern basis.

The group has made a profit for the six months ended 31 December 2022 of R97.9 million (2021: loss of R33.8 million). The profit is reflective of the steady recovery in trading operations following the relaxation in Covid-19 pandemic restrictions by governments globally and the normalisation of travel and trading levels. Current assets exceed its current liabilities by R141.8 million (2021: current liabilities exceed current assets by R59.8 million).

The directors have assessed the cash flow forecasts, available cash resources along with the other measures taken or proposed by management and are of the view that the group has sufficient liquidity (refer to note 17) to meet its obligations and continue operations as a going concern in a responsible and sustainable manner. The group monitors the covenants on an ongoing basis and does not expect to breach covenants.

The JSE Link to the announcement is https://senspdf.jse.co.za/documents/2023/jse/isse/CLH/ie2023.pdf.

For and on behalf of the board

Bulelani Ngcuka	**Andrew Widegger**
Chairman	*Chief executive officer*

24 February 2023

ADMINISTRATION

City Lodge Hotels Limited

Incorporated in the Republic of South Africa
Registration number: 1986/002864/06
Share code: CLH
ISIN: ZAE000117792
("City Lodge" or the "company" or the "group")

Registered office

The Lodge, Bryanston Gate Office Park,
cnr. Homestead Avenue and Main Road,
Bryanston, 2191

Directors

B T Ngcuka (Chairman), A Widegger (Chief executive officer)*,
S J Enderle#, G G Huysamer, F W J Kilbourn (Deputy chairman), A R Lapping, M S P Marutlulle,
N Medupe, M G Mokoka, S G Morris, D Nathoo*, L G Siddo*
**Executive #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