

REVIEWED GROUP PRELIMINARY RESULTS FOR THE YEAR ENDED 30 JUNE 2015



CITY LODGE HOTEL GROUP

City Lodge Hotels Limited Registration number: 1986/002864/06 Share code: CLH ISIN: ZAE 000117792

COMMENTARY

The City Lodge Hotel group celebrated its 30th anniversary on 1 August and we are delighted to report strong results. Average occupancies for the year at the group's South African operations, increased by a notable 4 percentage points to 67% compared to 63% in the previous year, despite the impact of several headwinds. The second half of the year benefitted from fewer public holidays than the previous corresponding period which had the additional mid-week public holiday for the 2014 national and provincial elections.

While the group's Botswana hotel continued to improve occupancies, the Kenyan operations were impacted by the perceived Ebola risk and ongoing travel advisories issued by various governments in regard to security concerns in parts of East Africa.

Total revenue for the year grew by 22.6% to R1.3 billion, assisted by a contribution from City Lodge Hotel Waterfall City, which became fully operational in February, and from the acquisition of Hospitality Property Fund's 50% stake in the Courtyard Joint Venture with effect from 1 May for R77.5 million.

South African operating costs, on a normalised basis, increased by 6.2% on a per room sold basis, resulting in a 0.2% point decrease in the normalised EBITDA margin for the South African operations to 41.2%. Total normalised EBITDA increased by 24.9% to R547.1 million. Depreciation rose by 10.2%, interest income was slightly lower and interest expense was R9.7 million higher due to increased average borrowings.

Profit for the Courtyard Joint Venture of R1.6 million was only for the 10-month period to 1 May, after which Courtyard earnings were consolidated. At this date, the fair value of the assets acquired and liabilities assumed were equal to their carrying amounts, except for property, plant and equipment with a carrying amount of R26.9 million and a fair value of R87.0 million. Goodwill of R3.4 million arose on this business combination.

Normalised headline profit before tax for the group increased by 18.7% to R455.7 million, while normalised headline earnings increased by 17.9% to R332.1 million. Normalised diluted headline earnings per share increased by 18.2% to 759.9 cents.

In line with the group's established policy of paying out 60% of normalised earnings, the final dividend increased by 21.7% to 230 cents, bringing the total dividend for the year to 460 cents per share, which is an increase of 17.7% on the previous year.

An additional amount of R65 million was drawn down from existing long-term borrowing facilities to partly fund the purchase of the outstanding 50% of the Courtyard Joint Venture.

DEVELOPMENT ACTIVITY

South Africa: City Lodge Hotel Newtown (148 rooms) and Road Lodge Pietermaritzburg (90 rooms) are progressing well and on schedule for a phased opening towards the end of the fourth quarter, with both hotels fully operational early in 2016.

East Africa: Construction on the 169-room City Lodge Hotel Two Rivers in Nairobi is due to commence in September with completion expected in the first quarter of 2017. Construction on the 147-room City Lodge Hotel Dar es Salaam is expected to begin during September, with completion also targeted for the first quarter of 2017. Formal agreements are due to be signed shortly relating to a 150-room City Lodge Hotel in Kampala, but these remain subject to the completion of a detailed feasibility study. It is anticipated that the study will be favourable and that construction will commence in the fourth quarter of 2015 or the first quarter of 2016.

Southern Africa: Formal agreements have been signed for the lease of land in Maputo for the development of a 148-room City Lodge Hotel. Construction will begin on receipt of the final development approvals which is anticipated to be in the final quarter of 2015 or early 2016 for completion in the first quarter of 2017. In Windhoek, formal agreements have now been signed for the development of a 151-room Town Lodge. Construction is expected to commence in the first quarter of 2016 with completion scheduled for the first quarter of 2017.

Once the group has completed the development projects above, its total rooms will increase by 15% to 7 837 rooms.

In addition to these developments the group has been successful in rolling out a fast and reliable wireless fibre internet offering for guests.

OUTLOOK

In the year ahead, the group will continue to grow in South Africa and also look to substantially increase its footprint in selected African countries. Our development pipeline will be funded out of a combination of operating cash flows and additional bank loan facilities of R890 million.

The trend of better than prior year occupancies has continued into July and August, auguring well for this momentum to be maintained in the year ahead.

BASIS OF PREPARATION

The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and 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 condensed group financial information has been presented on the historical cost basis, except for financial instruments and share-based payments carried at fair value, and are presented in Rand thousands which is City Lodge's functional and presentation currency.

These condensed financial statements were prepared under the supervision of Mr AC Wiedegger CA(SA), in his capacity as group financial director.

AUDIT REVIEW

The group's auditors, KPMG Inc. have reviewed these preliminary condensed financial statements for the year ended 30 June 2015. The review was conducted in accordance with ISRE 2410: Review of interim financial information performed by the independent auditor of the entity. A copy of their unmodified review report dated 13 August 2015 is available for inspection at the company's registered office.

DECLARATION OF DIVIDEND

The board has approved and declared final dividend number 53 of 230 cents per ordinary share (gross) in respect of the year ended 30 June 2015.

The dividend will be subject to Dividends Withholding Tax (DWT). In accordance with paragraphs 11.17(a)(i) to (x) 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 Dividends Tax rate is 15% (fifteen per centum);
- The gross local dividend amount is 230 cents per ordinary share for shareholders exempt from the Dividends Tax;
- The net local dividend amount is 195.5 cents per ordinary share for shareholders liable to pay the Dividends Tax;
- The company currently has 43 346 593 ordinary shares in issue; and
- The company's income tax reference number is 9041001711.

Shareholders are advised of the following dates in respect of the final dividend:

Last date to trade cum dividend	Friday, 4 September 2015
Shares commence trading ex dividend	Monday, 7 September 2015
Record date	Friday, 11 September 2015
Payment of dividend	Monday, 14 September 2015

Share certificates may not be dematerialised or rematerialised between Monday, 7 September 2015 and Friday, 11 September 2015, both days inclusive.

For and on behalf of the board

**Bulelani Ngcuka** Clifford Ross  
Chairman Chief executive

13 August 2015

CONDENSED SEGMENT REPORT

Primary segment R000's	Courtyard		City Lodge		Town Lodge		Road Lodge		Central office and other		Total	
	2015*	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	
Revenue	30 491	673 846	597 902	213 594	190 450	259 356	230 495	125 825	43 902	1 303 112	1 062 749	
EBITDAR	13 982	402 790	358 434	99 088	89 560	147 215	128 925	(48 749)	(78 831)	614 326	498 088	
Land and hotel building rental								(74 781)	(61 935)	(74 781)	(61 935)	
EBITDA										539 545	436 153	
Depreciation	(1 148)	(23 165)	(24 523)	(7 494)	(5 893)	(11 930)	(10 589)	(42 643)	(37 416)	(86 380)	(78 421)	
Results from operating activities										453 165	357 732	
Share of profit from joint ventures										1 618	21 327	

Geographic information R000's	South Africa		Rest of Africa		Total	
	2015	2014	2015	2014	2015	2014
Revenue	1 177 287	1 034 451	125 825	28 298	1 303 112	1 062 749
Share of profit from joint ventures	1 618	2 895	—	18 432	1 618	21 327
Non-current assets – Property, plant and equipment	1 301 952	1 051 615	438 299	405 811	1 740 251	1 457 426

EBITDAR represents earnings after BEE transaction charges but before interest, taxation, depreciation and rental. EBITDA represents earnings after BEE transaction charges but before interest, taxation and depreciation. \* Now disclosed separately following the acquisition of the remaining shares of the Courtyard joint venture.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

R000's	(Reviewed) 30 June 2015	(Audited) 30 June 2014
<b>ASSETS</b>		
<b>Non-current assets</b>	1 777 574	1 512 124
Property, plant and equipment	1 740 251	1 457 426
Intangible assets and goodwill	32 578	15 297
Investments in joint ventures	—	35 762
Deferred taxation	4 745	3 639
<b>Current assets</b>	221 119	191 785
Inventories	7 122	6 551
Trade receivables	95 934	66 330
Other receivables	32 701	32 539
Taxation	—	4 065
Cash and cash equivalents	85 362	82 300
<b>Total assets</b>	1 998 693	1 703 909
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>	727 442	565 915
Share capital and premium	164 002	158 255
BEE investment and incentive scheme shares	(515 728)	(526 822)
Retained earnings	971 117	820 543
Other reserves	108 051	113 939
<b>Non-current liabilities</b>	1 148 410	1 016 917
Interest-bearing borrowings	250 000	185 000
BEE interest-bearing borrowings	44 120	44 120
BEE preference shares	412 100	420 900
BEE shareholder's loan	32 988	28 718
BEE preference share dividend accrual	168 191	141 010
Other non-current liabilities	113 376	105 905
Deferred taxation	127 635	91 264
<b>Current liabilities</b>	122 841	121 077
Fair value of BEE interest rate swap	—	1 210
Trade and other payables	109 474	105 483
Taxation payable	1 351	—
Bank overdraft	12 016	14 384
<b>Total liabilities</b>	1 271 251	1 137 994
<b>Total equity and liabilities</b>	1 998 693	1 703 909

Note: The company has authorised capital commitments of R1 015 million of which approximately R109 million has been contracted. It is anticipated that approximately R499 million will be spent by 30 June 2016.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

R000's	(Reviewed) Year ended 30 June 2015	(Audited) Year ended 30 June 2014
Operating cash flows before working capital changes	564 297	454 914
Increase in working capital	(34 523)	(14 303)
Cash generated by operations	529 774	440 611
Interest received	4 751	5 210
Interest paid	(33 119)	(26 133)
Taxation paid	(115 520)	(98 356)
Dividends paid	(154 196)	(138 458)
Cash inflows from operating activities	231 690	182 874
Cash utilised in investing activities	(267 047)	(250 239)
– investment to maintain operations	(119 430)	(90 355)
– investment to expand operations	(90 008)	(806)
– investments in joint ventures	(58 527)	(159 570)
– proceeds on disposal of property, plant and equipment	918	492
Cash inflows from financing activities	40 145	146 178
– proceeds from issue of ordinary shares	5 747	3 593
– purchase of incentive scheme shares	(21 657)	(4 999)
– increase in interest-bearing borrowings	65 000	150 000
– redemption of BEE preference shares	(8 800)	(3 300)
– distribution by BEE structured entity	(145)	(35)
– effect of consolidation of 10th anniversary employee share trust	—	919
<b>Net increase in cash and cash equivalents</b>	4 788	78 813
<b>Cash and cash equivalents at beginning of period</b>	67 916	(11 789)
<b>Effect of movements in exchange rates on cash held</b>	642	892
<b>Cash and cash equivalents at end of period</b>	73 346	67 916

SUPPLEMENTARY INFORMATION

R000's	(Reviewed) Year ended 30 June 2015	% change	(Audited) Year ended 30 June 2014
<b>1. Headline earnings reconciliation</b>			
Profit for the period	318 262		277 383
Fair value gain on remeasurement of investment in joint venture	(59 977)		(44 671)
Gain on bargain purchase	—		(621)
Write off of net investment in joint venture (Profit)/loss on sale of equipment	4 111		—
Taxation effect	(762)		14
	213		(4)
<b>Headline earnings</b>	261 847	13	232 101
Number of shares in issue (000's)	43 347		43 221
Weighted average number of shares in issue for EPS calculation (000's)	36 229		35 936
Weighted average number of shares in issue for diluted EPS calculation (000's)	36 755		36 850
Basic earnings per share (cents)			
– undiluted	878,5	14	771,9
– fully diluted	865,9	15	752,7
Headline earnings per share (cents)			
– undiluted	722,8	12	645,9
– fully diluted	712,4	13	629,9
<b>2. Normalised headline earnings reconciliation</b>			
Headline earnings	261 847		232 101
BEE transaction charges	301		480
– Loss on fair value of interest rate swap	67		235
– Sundry expenses	234		245
Notional interest charge on BEE shareholder loan	4 270		3 717
BEE interest on interest-bearing borrowings	4 041		3 638
Preference dividends paid/payable by the BEE entities	39 542		37 245
Deferred tax on BEE transactions	(1 196)		(1 041)
Notional interest income on 10th anniversary employee share trust loan	4 478		3 845
10th anniversary employee share trust transaction charges and DWT	69		44
IFRS 2 share-based payment charge for the 10th anniversary employee share trust	3 137		1 563
Once-off deferred tax raised due to introduction of Capital Gains Tax in Kenya	15 562		—
<b>Normalised headline earnings</b>	332 051	18	281 592
<b>3. Number of shares (000's)</b>			
Weighted average number of shares in issue for EPS calculation	36 229		35 936
BEE shares treated as treasury shares	6 390		6 390
10th anniversary employees share trust treated as treasury shares	549		549
<b>Weighted average number of shares in issue for normalised EPS calculation</b>	43 168		42 875
Weighted average number of shares in issue for diluted EPS calculation	36 755		36 850
BEE shares treated as treasury shares	6 390		6 390
10th anniversary employees share trust treated as treasury shares	549		549
<b>Weighted average number of shares in issue for diluted normalised EPS calculation</b>	43 694		43 789
<b>4. Normalised headline earnings per share (cents)</b>			
– undiluted	769,2	17	656,8
– fully diluted	759,9	18	643,1
<b>5. Dividends declared per share (cents)</b>			
– interim	460,0	18	391,0
– final	230,0	14	202,0
	230,0	22	189,0
<b>6. Dividend cover (times)</b>			
– calculated on normalised headline earnings	1,7		1,7
<b>7. Interest-bearing debt to total capital and reserves (%)</b>			
– calculated on a normalised basis	17,4		14,9
<b>8. Return on equity (%)</b>			
– calculated on a normalised basis	24,8		24,6
<b>9. Net asset value per share (cents)</b>			
– calculated on a normalised basis	3 322		2 865