

# CITY LODGE HOTEL GROUP

Integrated Report 2016





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# BOARD OF DIRECTORS' STATEMENT

On the basis of the recommendations from the auditors KPMG Inc., the audit committee provides assurance on the annual financial statements.

The board acknowledges its responsibility to ensure the integrity of the Integrated Report ("IR"). The board has applied its mind to the IR and believes that it addresses all material issues and presents fairly the integrated performance of the organisation and its impacts in accordance with the principles set out in the International Integrated Reporting Framework.

The IR has been prepared in line with best practice and the recommendations of King III.

## REPORTING PRINCIPLES

The City Lodge Hotel Group is guided by the principles, with regards to our Integrated Report, contained in the following:

### ■ *Integrated reporting*

- IIRC <IR> Framework
- South African Companies Act
- King Report on Corporate Governance 2009 ("King III")
- Where applicable we apply the Global Reporting Initiative's ("GRI") guidelines

### ■ *Financial reporting*

- International Financial Reporting Standards
- South African Companies Act

## INTEGRATED REPORTING

This is our sixth Integrated Report in line with the requirements of King III. Each year we attempt to improve on the previous year's report, using feedback obtained from our stakeholders, the input of reporting experts and an internal review process that highlights opportunities for improvement in the reporting process.

We hope that this IR gives you a better understanding of our business and we remain committed to improving on this report and would appreciate your feedback in this regard – any comments can be emailed to Alastair Dooley at [adooley@clhg.com](mailto:adooley@clhg.com).



The IR was approved by the board on 12 September 2016 and is signed on its behalf by:

**C Ross** – Chief executive  
**B T Ngcuka** – Chairman

## SCOPE AND BOUNDARY

City Lodge Hotels Limited's IR is released at least 15 business days prior to its AGM. This report covers the financial year from 1 July 2015 to 30 June 2016. The previous IR was published in 2015 and covered the period 1 July 2014 to 30 June 2015. The scope of this year's report includes all of our operations in South Africa, Kenya and Botswana totalling 57 hotels. This IR provides a general narrative on the performance of the group's business across our five hotel brands. All City, Town and Road Lodge brands, as well as three Courtyard Hotels and the Fairview Hotel, are wholly owned by the group, while the remaining Courtyard Hotels are proportionally consolidated following the acquisition of the remaining share in the Share Block companies in the previous year.

This report is consistent with the prior year and is compiled annually. There are no restatements from the prior year.

This report has been prepared primarily for the providers of financial capital in order to support their financial capital allocation assessments, although information relevant to other stakeholders has also been included. The 2015 report was made available to shareholders on 11 September 2015.

Included in the report are the group's consolidated annual financial statements.

## EASY NAVIGATION INSIDE THIS REPORT



CONSOLIDATION



AFRICA  
EXPANSION



TRANSFORMATION



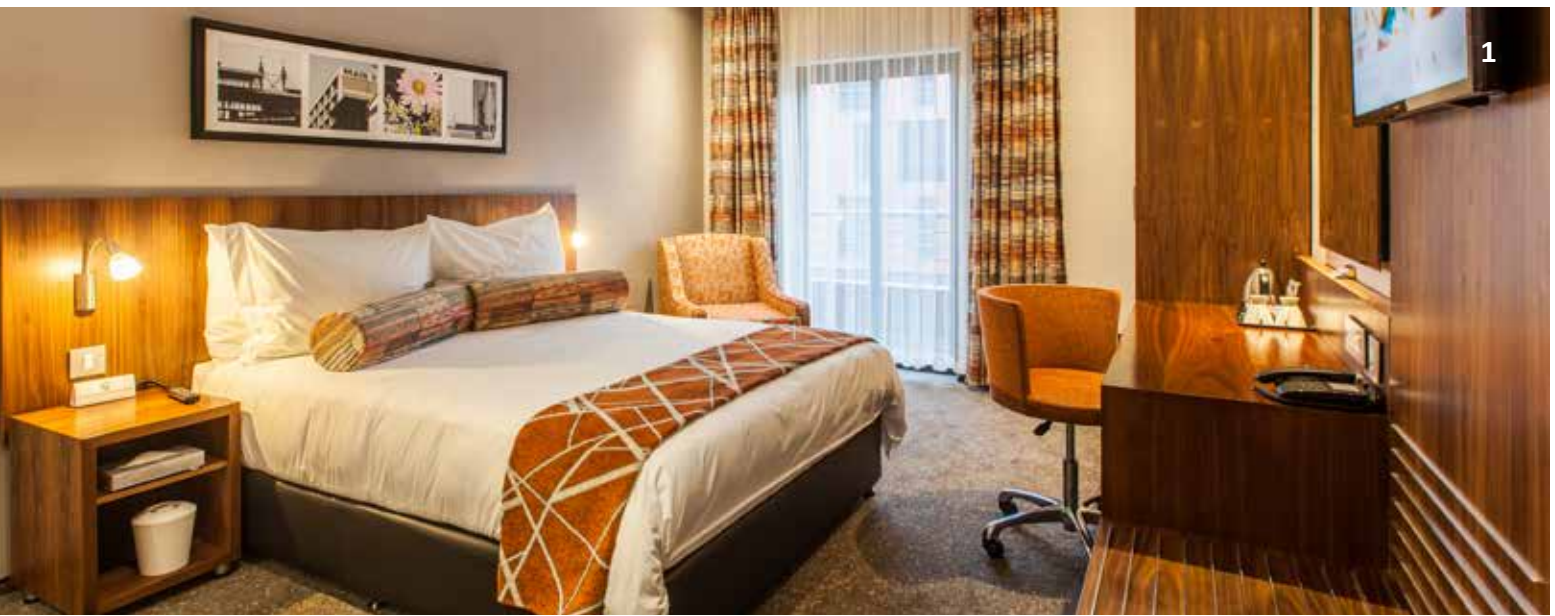
ENVIRONMENTAL  
SUSTAINABILITY



INFORMATION  
TECHNOLOGY



BRAND  
IDENTITY



CITY  
LODGE  
HOTEL  
GROUP

### **FORWARD LOOKING STATEMENTS**

Certain statements in this document may constitute “forward looking statements”. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of City Lodge Hotels Limited and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements. The company undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. These have not been reviewed or reported on by the group’s auditors.

## OUR VISION

- We will be recognised as the **preferred sub-Saharan African hotel group**.

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- Through **dedicated leadership, teamwork and kindness**, we will demonstrate our **consistent commitment to delivering caring service with style and grace**.

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- We will constantly **enhance our guests' experience** through our passionate people, **ongoing innovation and leading-edge technology**.

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- Our **integrity, values and ongoing investment** in our people and hotels will provide **exceptional returns to stakeholders** and **ensure continued, sustainable growth**.

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- Through **acts of kindness** we will make a **positive difference** to our **guests**, our **colleagues**, our **communities** and our **environment**.



The City Lodge Hotel Group is a multi-brand chain offering a variety of locations, features and budget choices to business and leisure travellers.

## CITY LODGE HOTEL GROUP

Commitment to **service excellence** from **highly motivated and dedicated staff** is a common thread throughout the group's hotels, which have developed a loyal base of regular guests over the years and an ever-growing number of new guests.

We place emphasis on providing **quality accommodation, friendly service** and a **homely ambience** – core reasons why guests choose our hotels.

The group has five distinct brands, currently offering **7 072 rooms**, at **57 locations** throughout **southern and eastern Africa**.

## OUR STRATEGY

To **consolidate our position** within South Africa.



CONSOLIDATION

To **expand our footprint** beyond South Africa's borders.



AFRICA EXPANSION

To continue to **transform the group** in line with the B-BBEE Codes of Good Practice.



TRANSFORMATION

To be a **leader within the hospitality sector** in environmentally sustainable business practices.



ENVIRONMENTAL SUSTAINABILITY

To **maintain and implement an innovative technology** platform.



INFORMATION TECHNOLOGY

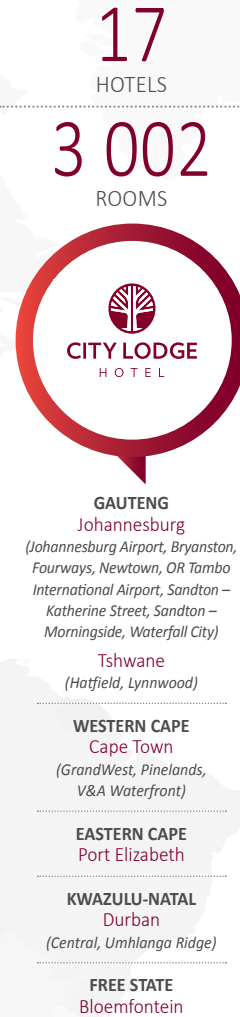
To continue **embedding our refreshed brands**, and realise growing benefits from a channel marketing strategy.



BRAND IDENTITY

## WHERE WE OPERATE AND AIM TO EXPAND TO

In 2012, the group acquired a 50% interest in the Fairview Hotel and Town Lodge, Upper Hill, Nairobi, Kenya, and it has since taken full ownership. Town Lodge Gaborone in Botswana became the first new hotel developed by the group outside of South Africa.



### WE ARE CURRENTLY EXPANDING IN ~

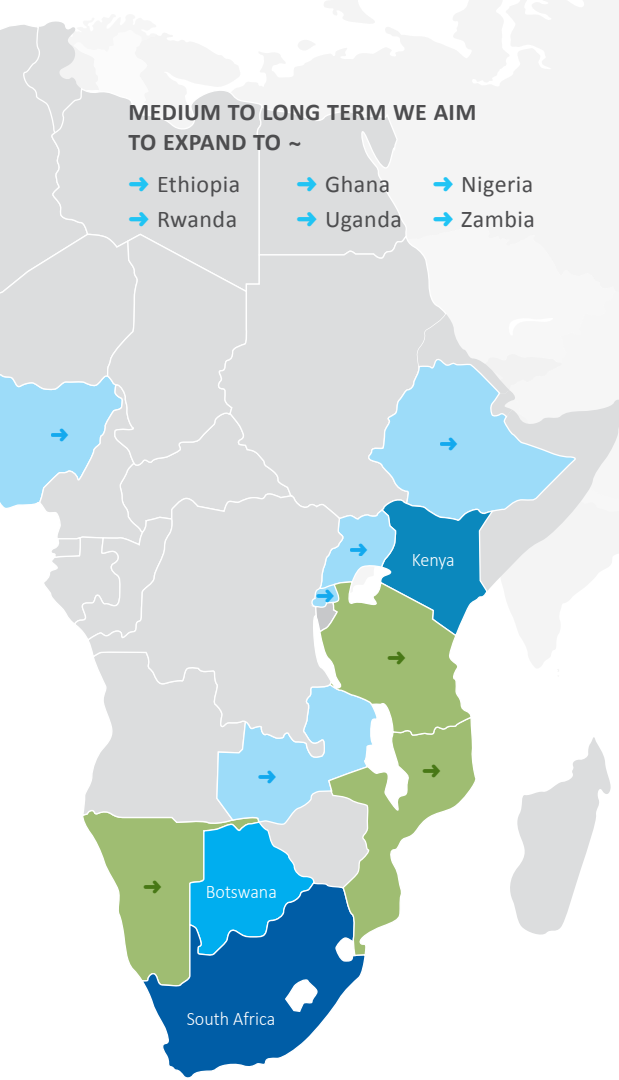
→ Kenya    → Mozambique    → Namibia    → Tanzania



With five Courtyard Hotels (381 rooms), 17 City Lodge Hotels (3 002 rooms), 12 Town Lodges (1 503 rooms), 22 Road Lodges (2 059 rooms), and the Fairview Hotel (127 rooms), the City Lodge Hotel Group has 7 072 rooms and ranks amongst the 200 largest hotel chains in the world.

**MEDIUM TO LONG TERM WE AIM TO EXPAND TO ~**

- Ethiopia
- Ghana
- Nigeria
- Rwanda
- Uganda
- Zambia



12

HOTELS

1 503

ROOMS



**GAUTENG**  
 Johannesburg  
 (Johannesburg Airport, Midrand, Roodepoort, Sandton – Grayston Drive)  
 Tshwane  
 (Menlo Park)

**WESTERN CAPE**  
 Bellville  
 George

**EASTERN CAPE**  
 Port Elizabeth

**MPUMALANGA**  
 Mbombela

**LIMPOPO**  
 Polokwane

**BOTSWANA**  
 Gaborone

**KENYA**  
 Nairobi

22

HOTELS

2 059

ROOMS



**GAUTENG**  
 Johannesburg  
 (Carnival City, Germiston, Isando, Johannesburg Airport, Randburg, Rivonia, Southgate)  
 Tshwane  
 (Centurion)

**WESTERN CAPE**  
 Cape Town  
 (N1 City, Cape Town International Airport)

**EASTERN CAPE**  
 East London  
 Port Elizabeth  
 (Port Elizabeth Airport, Summerstrand)

**NORTHERN CAPE**  
 Kimberley

**KWAZULU-NATAL**  
 Durban  
 (Central, Umhlanga Ridge)  
 Pietermaritzburg  
 Richards Bay

**FREE STATE**  
 Bloemfontein

**MPUMALANGA**  
 Mbombela

**NORTH WEST**  
 Potchefstroom  
 Rustenburg

## WHERE WE HAVE COME FROM AND OUR ACCOLADES



**Bronze level** from Investors in People.

2015 *Financial Mail* Top 20 Company.

1995

City Lodge 10th Anniversary **Employees Share Trust** was launched which enabled employees to become shareholders.

2015 *Sunday Times* Top 100 Company.

1990

**Town Lodge**, a new brand and differentiated two-star offering, is added to the portfolio.



**Road Lodge**, a one-star brand and **Courtyard**, a four-star brand offering, are added to the portfolio.

1985

### City Lodge Randburg

(now Bryanston), the first selected services hotel in South Africa, opens its doors to the public.

1992

City Lodge Hotels Limited successfully listed on the JSE.

2008

Successful introduction of **BEE shareholders** through a structured deal.

2012

Acquisition of **50% interest in Fairview Hotel Limited, Kenya.**

**Best one star hotel** in 2015 National Lilizela Accommodation Awards.

2014

Acquisition of remaining 50% interest in **Fairview Hotel Limited, Kenya.** Rejuvenation of hotel brands and logos.

2013

**Town Lodge Gaborone opens,** being our first hotel to be developed outside South Africa.



Fourteen **TripAdvisor 2016 certificates of excellence.**

Silver Lion Award at Cannes for "A room for everyone campaign".

2016

Commence construction of three hotels in **three countries.**



## HOW WE HAVE PERFORMED

R1,5bn

(2015: R1,3bn)

**Total revenue for the year increased by 15%**

R655,2m

(2015: R530,0m)

**Normalised cash generated by operations increased by 24%**

R192,3m

(2015: R209,4m)

**Capital investment decreased by 8%**

R373,7m

(2015: R332,1m)

**Normalised headline earnings increased by 13%**

R528,4m

(2015: R460,7m)

**Normalised operating profit increased by 15%**

859,9c

(2015: 759,9c)

**Diluted headline earnings per share increased by 13%**

Level 3

(2015: level 3)

**BEE rating in terms of tourism sector scorecard**

1 907

(2015: 1 866)

**Total number of jobs created increased by 41**

## STOCK EXCHANGE PERFORMANCE

10-YEAR ORDINARY SHARE PRICE



3 704c

(2015: 3 322c)

**Normalised net asset  
value per share**

35 936t

(2015: 29 600t)

**Carbon footprint**

86%

(2015: 85%)

**Total customer satisfaction  
rating increased by 1%**

517,0c

(2015: 460,0c)

**Dividends per share increased  
by 12%**

66%

(2015: 67%)

**Group occupancy rate decreased  
by 1%**

R624,9m

(2015: R547,1m)

**Total normalised EBITDA  
increased by 14,2%**



R84,95

2012

R120,00

2013

R127,00

2014

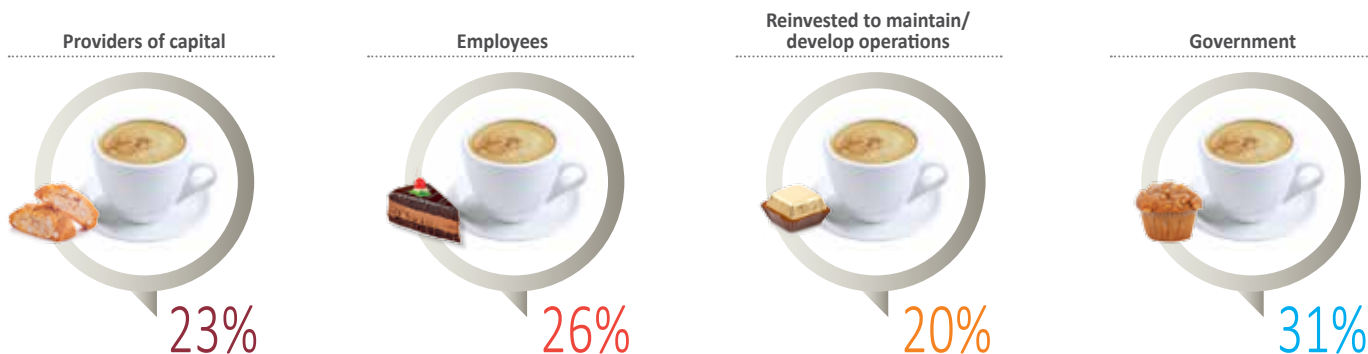
R138,99

2015

R155,52

2016

## VALUE ADDED STATEMENT



R000	Group		2015	%
	2016	%		
Revenue <sup>(1)</sup>	1 704 249		1 487 245	
Paid to suppliers for materials and services <sup>(1)</sup>	(582 204)		(459 599)	
Value added by operations	1 122 045		1 027 646	
Interest income	2 268		4 751	
Income from joint venture	–		1 618	
Total wealth created	1 122 045	100	1 034 015	100
Distributed as follows:				
Salaries, wages and all related benefits <sup>(2)</sup>				
– direct	243 814		220 321	
– indirect	43 065		36 620	
	286 879	26	256 941	25
Government				
Taxes <sup>(3)</sup>	312 118		274 820	
Rates	39 106		34 361	
	351 224	31	309 181	30
Providers of capital				
Dividends to ordinary shareholders	184 316		154 196	
Interest on borrowings	74 523		63 251	
	258 839	23	217 447	21
Reinvested to maintain/develop operations				
Depreciation	96 399		86 380	
Accumulated profit	130 972		164 066	
	227 371	20	250 446	24
Total wealth distributed	1 124 313	100	1 034 015	100
Headcount – direct	1 424		1 410	
Headcount – indirect	483		456	
Total headcount	1 907		1 866	

<sup>(1)</sup> Including value added taxation (“VAT”).<sup>(2)</sup> Excluding employee taxes.<sup>(3)</sup> Includes income taxation, deferred taxation, employee taxes and net VAT.

## OUR GROUP STRUCTURE

## CITY LODGE HOTEL GROUP



<sup>#</sup> City Lodge has guaranteed the funding of these BEE entities, resulting in their incorporation into the company and group results. City Lodge does not hold a direct interest in these entities.

\* A subsidiary of Property Lodging Investments Proprietary Limited.

■ City Lodge Hotels Limited owns 0,01%.

▼ City Lodge Hotels Limited owns 1%.

## THOSE WHO KEEP US IN BUSINESS

Engaging with our stakeholders and understanding their requirements and concerns is critical to helping our company identify its most material issues. Information gathered as part of our various stakeholder engagement processes feeds directly into decision-making and drives our business strategy.

*We engaged with the following stakeholders in the following ways →*





## WHERE OUR INDUSTRY IS HEADED

### WHAT IS IMPORTANT TO THEM

- Quality product offering
- Consistent service levels
- Recognised loyalty
- Value for money
- Efficiency in dealing with us
- Listening to their needs

- Job security
- Engagement
- Fair remuneration
- Career pathing
- Performance management
- On-the-job coaching and training
- Safe working conditions

- Tax revenues
- Investment in country
- Compliance with legislation
- Supporting communities
- Advancing transformation
- Reduction in consumption of natural resources
- Job creation

- Corporate governance and ethical leadership
- Level of gearing
- Growth and expansion opportunities
- Return on investment
- Dividends

- Stability of supply and timely payment
- BEE performance
- Fair treatment

- Sponsorships
- Bursaries and leadership
- Investment in disadvantaged communities
- Volunteer days
- Responsible consumption

- Honest transparent communication

The deteriorating macro-economic environment and political climate has seen a drop in business confidence within South Africa, impacting demand of local SMME, corporate, government and leisure consumers to travel. Economic growth within South Africa is expected to be around 0% for 2016, while global economic conditions remain uncertain following the Brexit vote and subdued economic activity in the rest of the world. Declining disposable income, service delivery concerns and concerns of safety and security continue to impact business and consumer confidence and the performance of the industry. The industry has seen a below normal level of confidence in the sector, as reported in the Tourism Business Council of South Africa TBI Index Report, with results trending worse than expected for the second quarter of 2016 and with a pessimistic view for the year ahead. The most negative factor influencing the industry was as a result of insufficient domestic business demand followed by the cost of inputs, particularly the cost of basic services. Further afield, east African trading conditions have continued to show improvements since the previous year.

In line with the poor performance of the sector in South Africa, development activity is expected to remain at low levels. International chains continue to announce their expansion plans in South Africa as well as the rest of Africa although at a slow pace.

The weaker currency bolstered international travel by making South Africa a desirable holiday destination for foreign visitors, however the industry continued to be plagued by the restrictive visa regulations and unabridged birth certificate requirements and therefore could not fully capitalise on this windfall. Going forward currency volatility will provide some level of uncertainty for inbound tourism, particularly following the Brexit vote and given the size of the UK source market. Further volatility may also be experienced in the lead up to the sovereign credit rating reviews of South Africa towards the end of 2016.

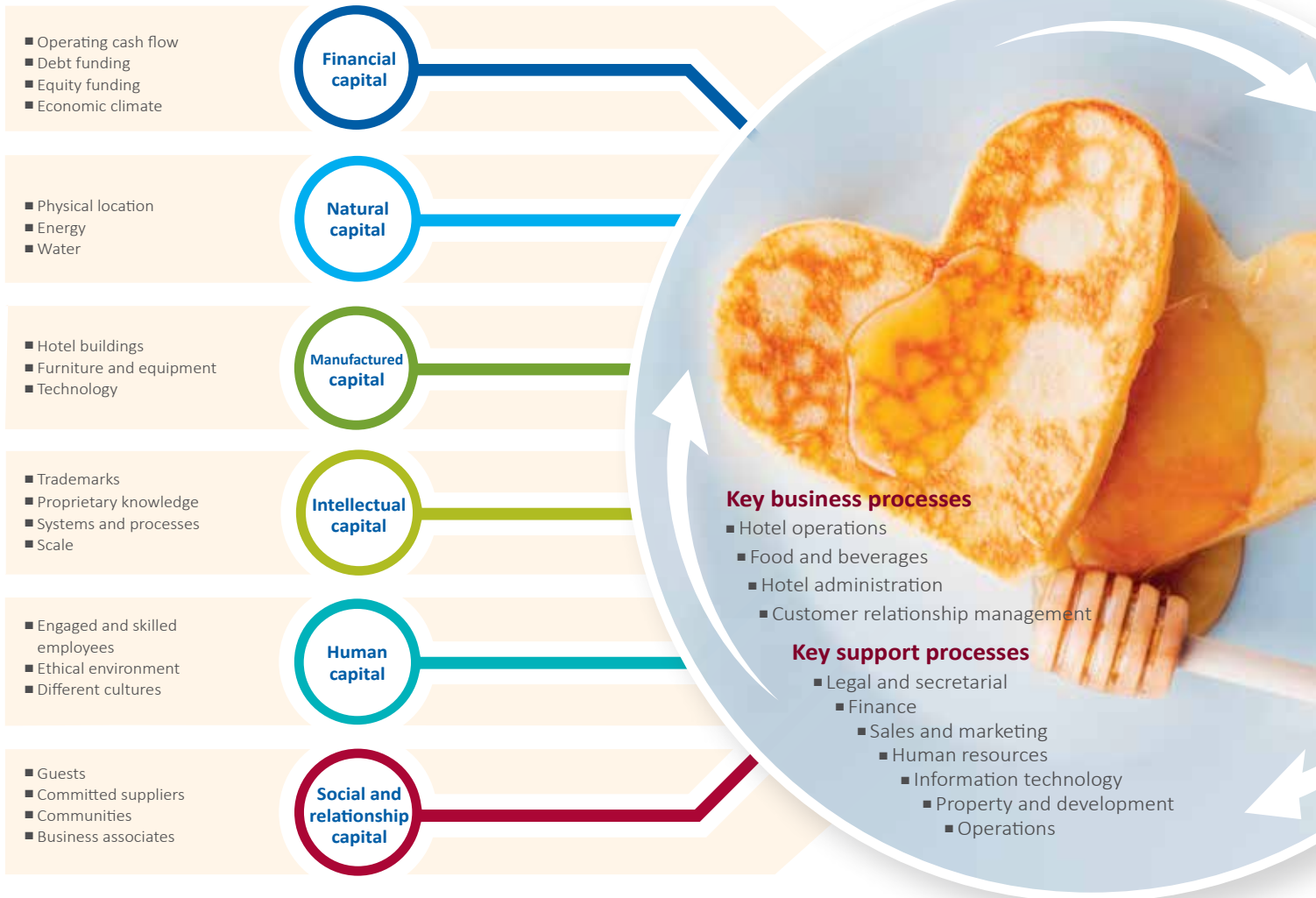
Environmental issues remain top of mind in all areas of operation, particularly given the severe weather and drought conditions experienced recently in the region. The security of supply of electricity and water and the rise in its associated costs has meant that stakeholders are more interested in initiatives to reduce consumption patterns.

The use of social media has significantly changed the hospitality landscape, with growth in competition in the online travel agent and shared economy spaces. These platforms provide a traveller with instant access to search for and buy the best available deals in the most convenient locations based on what other travellers have experienced.

## OUR BUSINESS MODEL

We own or lease and manage all of our 57 hotels under our own brands and primarily operate in the selected service hotel sector, which we pioneered in South Africa.

### INPUTS

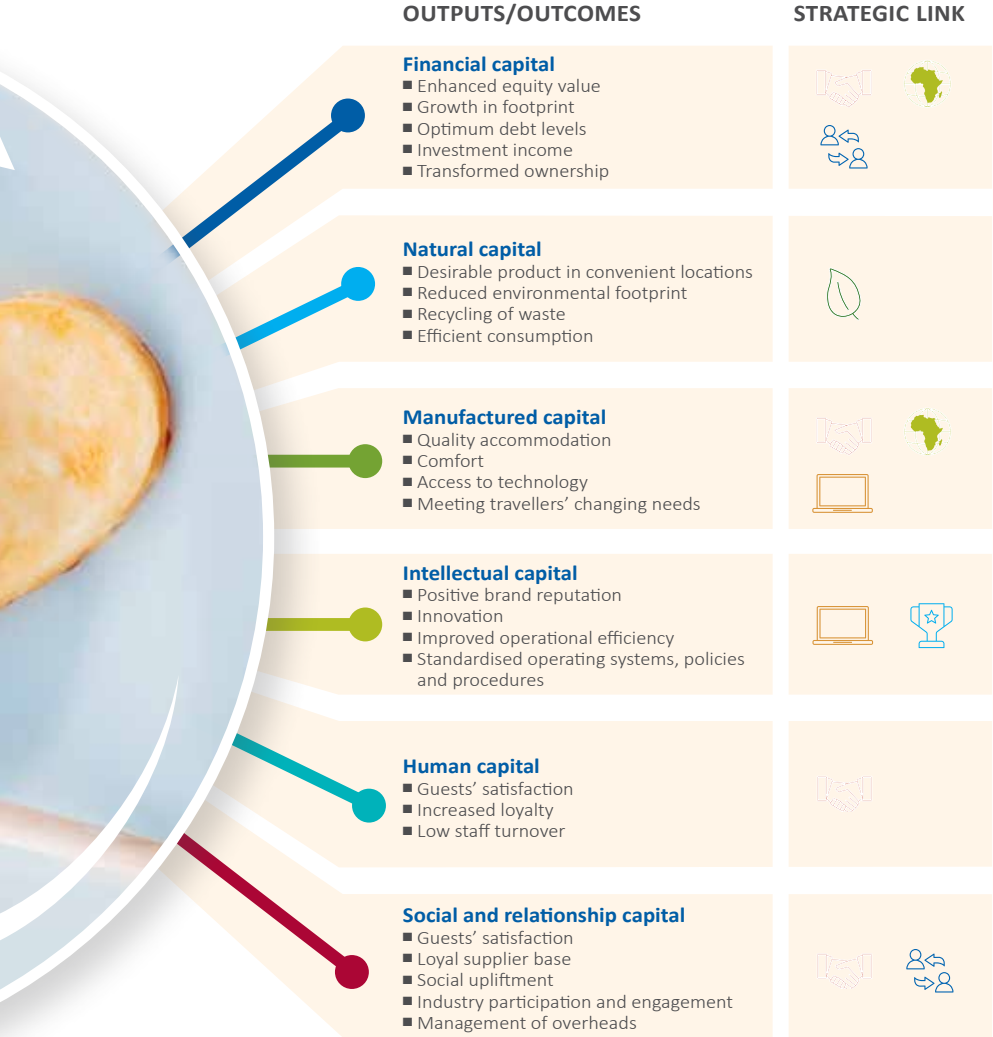


In this way we are able to manage our products and standards in such a way as to enforce consistency throughout the group. This consistency flows from hotel design, to product offering and service. The company will lease properties both in South Africa and offshore only where it is not possible to own the land and/or buildings. Such properties would be in the minority, allowing the group to leverage off its historic low-cost model to remain competitive in the current trading environment.

Through the implementation of a rigorous refurbishment strategy, we maintain our high standards of product quality and are able to introduce advancements/improvements to our product regularly. One such example of the benefits from this strategy is the implementation of our energy-efficiency initiatives, which has reduced our absolute energy consumption by more than 34% since its initiation in 2010.

Of our revenue, approximately 90% is generated from providing tip-top and clean accommodation to business and leisure travellers in a loving and caring environment. Providing services to complement this offering such as breakfast, light meals, sundowner bars and meeting facilities allow guests to select which services they wish to receive at an additional affordable price.

All our hotels receive the support of our central office, which manages and implements the group's strategies consistently across all our brands. As a result of this unique value proposition, we have managed to achieve an average return on equity of 24,6% over the past seven years, with a current client satisfaction rating of 86% for the past year. This was achieved against a backdrop of providing jobs to 1 605 people in South Africa and a further 302 beyond its borders, either directly or indirectly, thereby contributing to government's growth objectives.



## OUR MATERIAL ISSUES AND STRATEGIC PRIORITIES



In determining our material issues – those that have the greatest potential impact on our success – City Lodge is informed by a range of internal and external factors, as well as the concerns raised by our stakeholders. The group follows a process to assess the input gathered and identify those issues that are of the greatest strategic importance to us. In particular, we gather information through internal

and external engagement processes using these key sources:

### THE EXTERNAL ENVIRONMENT

We are informed by trends in the external environment, which are discussed as a regular item at the company's executive committee and board meetings. These include economic and industry trends, shifts in the competitive landscape and stakeholder concerns.

### THE REGULATORY ENVIRONMENT AND INDEPENDENT BODIES

We consider the regulatory environment, assessing the materiality and impact of various regulations and legislation – both existing and those being developed – on the company. This includes legislation affecting our engagement with our workforce, the treatment of customers, marketplace behaviour, governance and environmental responsibility. We also participate in forums with governing bodies responsible for the development of legislation.

### STAKEHOLDER ENGAGEMENT

Engaging with our stakeholders and understanding their concerns is critical to helping our company identify its most material issues. Information gathered as part of our various stakeholder engagement processes feeds directly into decision-making and drives our business strategy.

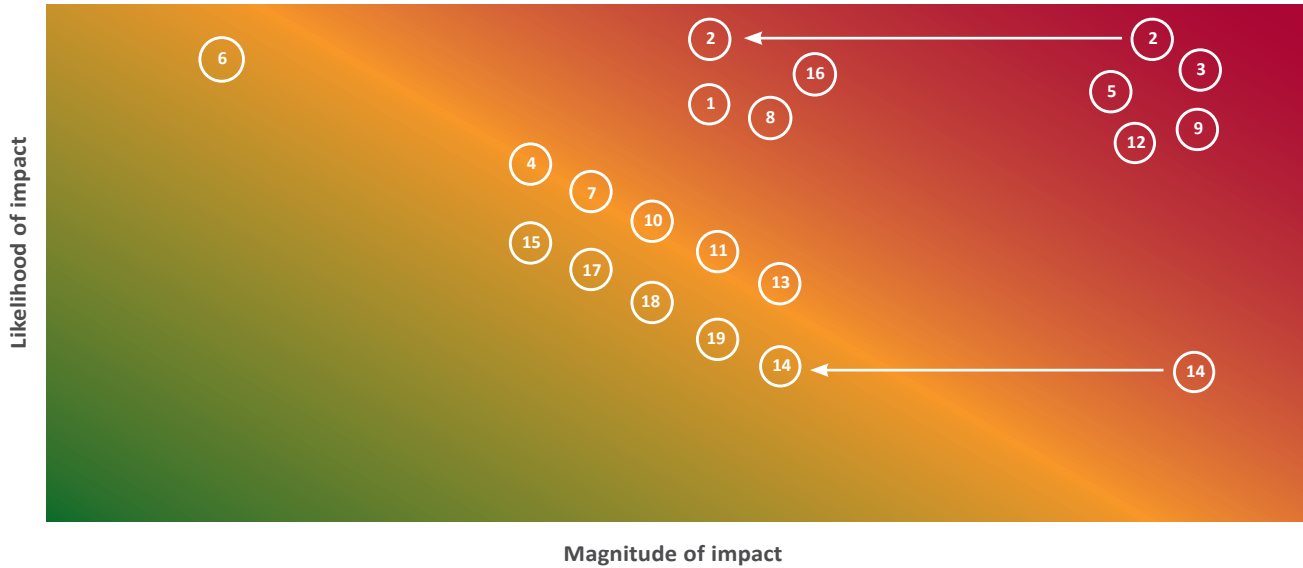
### IDENTIFYING OUR MATERIAL ISSUES

Following an internal workshop, inputs gathered from these key sources were assessed and summarised prior to being presented to the board for its approval of the most material issues for inclusion in this IR. Since 2015, there has been some movement in the assessment of material issues as a result of shifting operating conditions, which are presented in the adjacent graph.

The issues identified were mapped according to their materiality as shown.

As the final step in the process, this information was fed directly into the articulation of our current business strategy.

**MATERIAL ISSUES HEATMAP**





■ Issues included in this area of the grid have only a minor impact on the company and are thus not reported on.





■ Issues included in this area have a relatively moderate impact on our company. All issues shown in this area are discussed partially in this report.

■ Issues included in this area are of high significance and impact for both stakeholders and the company. All issues shown in this area are discussed fully in this report.

● Issue numbers (refer pages 18 to 21).

FOCUS	MATERIAL ISSUES	DESCRIPTION	MITIGATING STRATEGY
	1. Industry trends – over-supply	As a result of the increased capacity in the sector created in the run-up to the 2010 FIFA World Cup and the low subsequent utilisation thereof, the outlook for the hospitality industry remains subdued in the short term, with limited new capacity being added in the formal accommodation sector. In the large centres, growth in the shared economy's capacity has introduced additional capacity.	<ul style="list-style-type: none"> <li>■ Active management which informs decisions on pricing and capacity.</li> <li>■ Tracking and analysing industry trends and data.</li> </ul>
	2. Industry trends – travel patterns	Due to the limited choice of low-cost airlines, along with increased availability of flights during peak times and shifting travel patterns, overnight travel is on the decrease and reservation lead times are typically short.	<ul style="list-style-type: none"> <li>■ Active management which informs decisions on pricing and capacity.</li> <li>■ Tracking and analysing industry trends and data.</li> </ul>
	3. Industry trends – yield management	Our ability to manage our own inventory and pricing strategy could impact our market share as travellers shop around for the best available deal.	<ul style="list-style-type: none"> <li>■ Active management which informs decisions on pricing and capacity.</li> <li>■ Tracking and analysing industry trends and data.</li> </ul>
	4. B-BBEE deal funding and compliance	The terms of the B-BBEE funding deal contain specific covenants to be complied with, along with minimum redemption levels, which are solely dependent on dividend flows from the group.	<ul style="list-style-type: none"> <li>■ Continuous engagement with banks regarding performance and terms of funding.</li> </ul>
	5. Exposure to South African macro-economic environment	As a result of the bulk of our operations being concentrated within the borders of South Africa, we are directly affected by the spending habits of the South African business traveller and consumer, influenced for example by a rising cost of living, the political landscape and low business confidence and economic growth.	<ul style="list-style-type: none"> <li>■ Geographic spread of portfolio and active brand management.</li> <li>■ Exploring non-South African opportunities.</li> </ul>
	6. Safeguarding our assets	High levels of crime occurring in and around our hotels.	<ul style="list-style-type: none"> <li>■ Awareness in this regard is addressed through participation in industry security and local policing forums.</li> <li>■ 24-hour on premises security at all sites.</li> <li>■ Extensive in-house training for all employees.</li> </ul>
	7. Failure to provide required service levels	Inability to meet the diverse needs of travellers.	
	8. Changing labour environment	The current environment around collective bargaining by unions and the legislative banning of labour broking and the potential effect on the outsourced cleaning services and the implementation of stringent penalties for missed employment ("EE") equity targets.	<ul style="list-style-type: none"> <li>■ Regular engagement with labour unions and service providers.</li> <li>■ Compliance function to monitor changing legislative requirements.</li> <li>■ EE plans developed at individual hotel level.</li> </ul>
	9. Limitation on availability of funding for future projects and the cost thereof	In order for City Lodge to continue to expand its footprint both locally and internationally, access to funding may be limited due to current macro-economic circumstances. Similarly the cost and terms at which such funding is granted may impact the group's ability to expand and grow.	<ul style="list-style-type: none"> <li>■ Continuous engagement with banks regarding facilities available.</li> <li>■ Consideration of alternative sources of funding.</li> </ul>
	10. Exposure to emerging markets – macro-factors	City Lodge's strategy to expand beyond the borders of South Africa could be affected by various risks prevalent in these countries, including political and regulatory uncertainty, transparency around land ownership, threat of terrorism, corruption and the timeframe to obtain operating licences.	<ul style="list-style-type: none"> <li>■ Clear guidelines and expectations direct in-depth investigation and feasibility studies on countries and specific locations by dedicated resources.</li> <li>■ On-site visits.</li> </ul>
	11. Exposure to emerging markets – operational challenges	There are a host of operational challenges involved in expanding beyond South African borders, eg availability of electricity, operating supplies, potable water and sewerage treatment.	<ul style="list-style-type: none"> <li>■ Extensive evaluation conducted by external specialists.</li> <li>■ On-site visits.</li> </ul>

STRATEGIC PRIORITIES	OVERVIEW	OUTCOME	KPI
<p>To consolidate our position within South Africa.</p>	<p>Through continued focus on quality of service and product, we aim to maintain our position as a leading provider of quality selected services hotel accommodation to our guests.</p>	<ul style="list-style-type: none"> <li>■ Increased occupancy.</li> <li>■ Maintained/increased average daily rates.</li> <li>■ Increased focus on cost base.</li> <li>■ Managed debt levels.</li> <li>■ Consistently high standard of product and service.</li> </ul>	<ul style="list-style-type: none"> <li>■ Occupancy %</li> <li>■ Average daily rate (“ADR”)</li> <li>■ EBITDA margin</li> <li>■ Brand perception score</li> <li>■ Guest satisfaction survey %</li> <li>■ Return on equity (“RoE”)</li> </ul>
<p>To expand our footprint beyond South Africa’s borders.</p>	<p>By obtaining a detailed understanding of our continent, we will be able to introduce the same quality product our guests have grown to love to other African countries.</p>	<ul style="list-style-type: none"> <li>■ Detailed feasibility studies into foreign markets.</li> <li>■ Established footprint in new markets.</li> </ul>	<ul style="list-style-type: none"> <li>■ Number of hotels beyond South African borders.</li> </ul>

FOCUS	MATERIAL ISSUES	DESCRIPTION	MITIGATING STRATEGY
	<b>12. B-BBEE</b>	Compliance to legislative requirements and the achievement of new targeted BEE levels.	<ul style="list-style-type: none"> <li>■ Regular monitoring and forecasting of BEE targets.</li> </ul>
	<b>13. Environmental sustainability</b>	Development and implementation of sustainable environmentally friendly business practices.	<ul style="list-style-type: none"> <li>■ Regular monitoring and decision-making by the environmental sustainability steering committee.</li> </ul>
	<b>14. Implementation of a customised Property Management System ("PMS")</b> <b>15. Reliance on IT infrastructure</b> <b>16. Changing needs of the business traveller</b>	<p>The in-house development of a bespoke PMS will result in a number of benefits; however, there is an increased risk due to the level of integration with external systems required.</p> <p>As a result of the wide distribution of our hotels throughout sub-Saharan Africa, we have, over time, established an IT infrastructure in order to support our operations. Our hotels are reliant on this infrastructure daily in order to perform optimally.</p> <p>Technological advancements result in changing guest expectations which place additional reliance on the IT infrastructure and requires the group to be innovative in its offering and refurbishments.</p>	<ul style="list-style-type: none"> <li>■ Dedicated internal specialists manage the project.</li> <li>■ Engaging external specialist software developers to design and execute new PMS.</li> <li>■ Continuous upgrading and maintenance of IT infrastructure.</li> <li>■ Implementation of a detailed disaster recovery plan.</li> <li>■ Making use of third-party hosting facilities.</li> <li>■ Dedicated resources engage internally to assess and implement new projects.</li> </ul>
	<b>17. Perception of brand and service offerings</b>	City Lodge has been offering a consistently good product since its inception. As a result of the new capacity created in the industry, consumers are spoilt for choice and may perceive the brand unfavourably given its relative age and due to a lack of understanding thereof. Further, the direction of the marketing campaigns may influence consumer perceptions.	<ul style="list-style-type: none"> <li>■ A targeted marketing strategy to educate guests about the various brand offerings.</li> <li>■ Regular market research is conducted to understand the views and needs of travellers, which informs future decision-making.</li> <li>■ Engaging external specialist branding and marketing consultants and keeping up with current consumer trends.</li> </ul>
Page 76	<b>18. Fair remuneration philosophy</b>	There is a global trend towards evaluating income disparity within an organisation and benchmarking these to similar industry participants. Further, the introduction of a pay-for-performance culture aligns employee interests with those of shareholders.	<ul style="list-style-type: none"> <li>■ Extensive evaluation conducted by external specialists.</li> <li>■ Monitoring and implementation of remuneration philosophy is a function of the remuneration committee.</li> </ul>
Pages 71 and 75	<b>19. Legislative changes and compliance with laws and regulations</b>	Compliance with new and changing legislation.	<ul style="list-style-type: none"> <li>■ Continuous monitoring of legislative changes affecting the industry and providing commentary when requested to do so.</li> <li>■ Dedicated legal and compliance function.</li> </ul>



STRATEGIC PRIORITIES	OVERVIEW	OUTCOME	KPI
<p>To continue to transform the group in line with B-BBEE Codes of Good Practice.</p>	<p>By remaining committed to the principles contained in the Codes of Good Practice, the group will transform itself, thereby ensuring its long-term sustainability.</p>	<ul style="list-style-type: none"> <li>■ Increased ownership in the hands of black South Africans.</li> <li>■ Increased representation at all levels in the group.</li> <li>■ Improved level of skills and experience.</li> <li>■ Development and support of sustainable supply chain.</li> <li>■ Positive influence on local communities.</li> </ul>	<ul style="list-style-type: none"> <li>■ B-BBEE rating</li> <li>■ Various HR targets</li> </ul>
<p>To be a leader within the hospitality sector in environmentally sustainable business practices.</p>	<p>By clearly understanding the impact our business has on the environment, we are able to change the way we operate, and in so doing have a positive influence on our planet and its sustainability over the short, medium and long term.</p>	<ul style="list-style-type: none"> <li>■ Increased awareness of environmental issues.</li> <li>■ Understanding of the group's impact on the environment.</li> <li>■ Reduced energy and water consumption.</li> <li>■ Minimisation and recycling of waste.</li> </ul>	<ul style="list-style-type: none"> <li>■ CO<sub>2</sub> footprint</li> <li>■ Recognised sustainability certification</li> <li>■ Consumption per room sold</li> </ul>
<p>To maintain and implement an innovative technology platform.</p>	<p>By remaining aware of current trends and introducing innovative IT services to enhance our guests' experiences.</p>	<ul style="list-style-type: none"> <li>■ Increased innovation.</li> <li>■ Enhanced guest satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>■ Guest satisfaction survey %</li> </ul>
<p>To continue embedding our refreshed brands and realise growing benefits from a channel marketing strategy.</p>	<p>The refreshed brand identity will continue to result in a shift in the level of awareness and perception of our brands among current and future guests, demonstrating how the experience of our product has kept up with market trends.</p>	<ul style="list-style-type: none"> <li>■ Improved level of awareness of the group's brands.</li> <li>■ Increased level of differentiation of the group's offering.</li> <li>■ Improved digital and social media presence.</li> <li>■ Increased occupancy.</li> </ul>	<ul style="list-style-type: none"> <li>■ Level of brand awareness</li> <li>■ Digital presence</li> <li>■ Occupancy %</li> </ul>

## OUR BRAND OVERVIEW



1 hotel ■ 127 rooms



5 hotels ■ 381 rooms



17 hotels ■ 3 002 rooms



12 hotels ■ 1 503 rooms



22 hotels ■ 2 059 rooms

## OUR ROOMS

- Spacious rooms with various-sized beds.
- Television with satellite TV.
- Bathroom with bath and/or separate showers.
- Irons and ironing boards.
- Tea and coffee-making facilities.
- Electronic safe large enough to accommodate a laptop.
- Desk with lighting and plugs for easy connectivity.

- Studio, one or two-bedroom luxury air-conditioned rooms.
- Well-appointed bathroom(s).
- Fully equipped kitchenette.
- Personal electronic safe in each room (big enough for laptops).
- International direct-dial telephone.
- Television with M-Net and selected DSTv channels.
- Chrysalis cotton-rich percale linen.
- Tea and coffee-making facilities.

- Spacious air-conditioned room with queen-sized bed or twin beds.
- Television with M-Net and selected DSTv channels.
- Bathroom with bath and separate shower or maxi-shower.
- Tea and coffee-making facilities.
- Rooms with sleeper-sofa available at selected hotels on request.
- Electronic safe large enough to accommodate a laptop.
- Desk with lighting and plugs for easy connectivity.
- Plush duvets with cotton-rich percale linen.

- Fully carpeted, spacious air-conditioned room with double or twin beds.
- Television with M-Net and selected DSTv channels.
- Interleaving family rooms available.
- En-suite bathroom with maxi-shower.
- Tea and coffee-making facilities.
- Desk with lighting and plugs for easy connectivity.
- Electronic safe large enough to accommodate a laptop.

- Fully carpeted and air-conditioned.
- Television with M-Net and selected DSTv channels.
- Working desk.
- En-suite bathroom with shower, toilet and hand basin.
- Rooms with double or twin beds, with single sleeper chair available in selected rooms.

## OUR SERVICES

- Gym.
  - Boardrooms and conference facilities.
  - Convenient location.
  - Full English and continental breakfast daily.
  - 24-hour reception and check-in.
  - Sundowner bar.
  - A number of onsite restaurants and cafés.
  - Same-day laundry and dry-cleaning service.
  - Sparkling swimming pool.
  - Free and convenient parking.
  - Wireless internet access.
- 
- Intimate lounge area.
  - Courtesy bar (17:00 to 19:00).
  - 24-hour enhanced security.
  - Free, secure parking just metres from your door.
  - An elegant boardroom for guest use.
  - Personal use of guest office and internet.
  - Sparkling pool in landscaped garden setting.
  - Full English and continental breakfast daily.
  - In-room dining by arrangement with local restaurants.
  - Same-day laundry and dry-cleaning service.
  - 24-hour launderette.
  - Personalised food shopping service.
  - Wireless internet access.
- 
- Internet area.
  - Mini gym.
  - Boardroom.
  - Convenient locations, close to major routes.
  - Full English and continental breakfast daily.
  - 24-hour reception and check-in.
  - Sundowner bar.
  - 24-hour vending machines stocked with snacks and cold beverage items.
  - Same-day laundry and dry-cleaning service.
  - Sparkling swimming pool.
  - Free and convenient parking.
  - Wireless internet access.
  - #Cafe serving light meals.
- 
- Convenient locations, close to major routes.
  - Free, easy and secure parking.
  - 24-hour reception and check-in.
  - Full English and continental breakfast daily.
  - Sundowner bar.
  - 24-hour vending machine for snacks and beverages.
  - Same-day laundry and dry-cleaning service.
  - Wireless internet access.
- 
- A light breakfast is available daily.
  - 24-hour vending machines stocked with snacks and beverages.
  - Free, ample and secure parking.
  - 24-hour reception service and check-in.
  - Wireless internet access.

## OUR CURRENT LOCATIONS

- Nairobi, Kenya.
- 
- Johannesburg (Eastgate, Rosebank, Sandton).
  - Port Elizabeth.
  - Tshwane (Arcadia).
- 
- Bloemfontein.
  - Cape Town (GrandWest, Pinelands, V&A Waterfront).
  - Durban (Central, Umhlanga Ridge).
  - Johannesburg (Airport – Barbara Road, Bryanston, Fourways, Newtown, OR Tambo Airport, Sandton – Katherine Street, Sandton – Morningside, Waterfall City).
  - Port Elizabeth.
  - Tshwane (Hatfield, Lynnwood).
- 
- Bellville.
  - George.
  - Johannesburg (Johannesburg Airport, Midrand, Roodepoort, Sandton – Grayston Drive).
  - Mbombela.
  - Polokwane.
  - Port Elizabeth.
  - Tshwane (Menlo Park).
  - Gaborone, Botswana.
  - Nairobi, Kenya.
- 
- Bloemfontein Airport.
  - Cape Town (N1 City, Cape Town International Airport).
  - Centurion.
  - Durban (Central, Umhlanga Ridge).
  - East London.
  - Johannesburg (Carnival City, Germiston, Isando, Johannesburg Airport, Randburg, Rivonia, Southgate).
  - Kimberley.
  - Mbombela.
  - Pietermaritzburg.
  - Port Elizabeth (Port Elizabeth Airport, Summerstrand).
  - Potchefstroom.
  - Richards Bay.
  - Rustenburg.

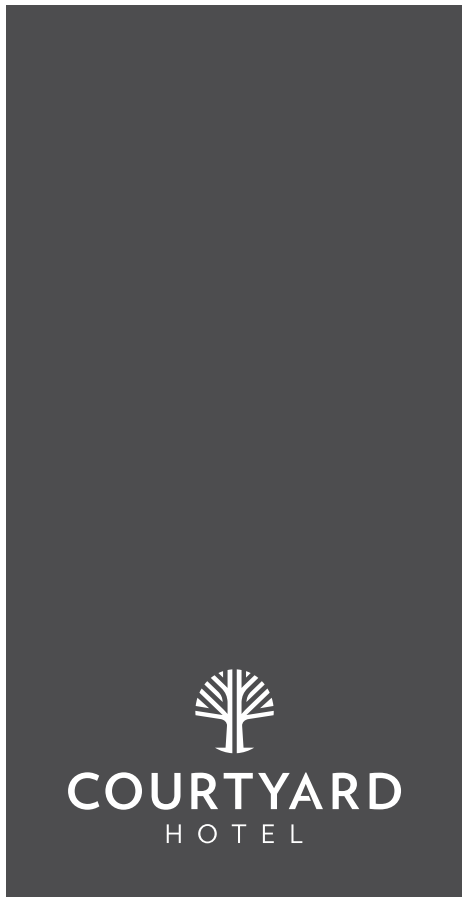
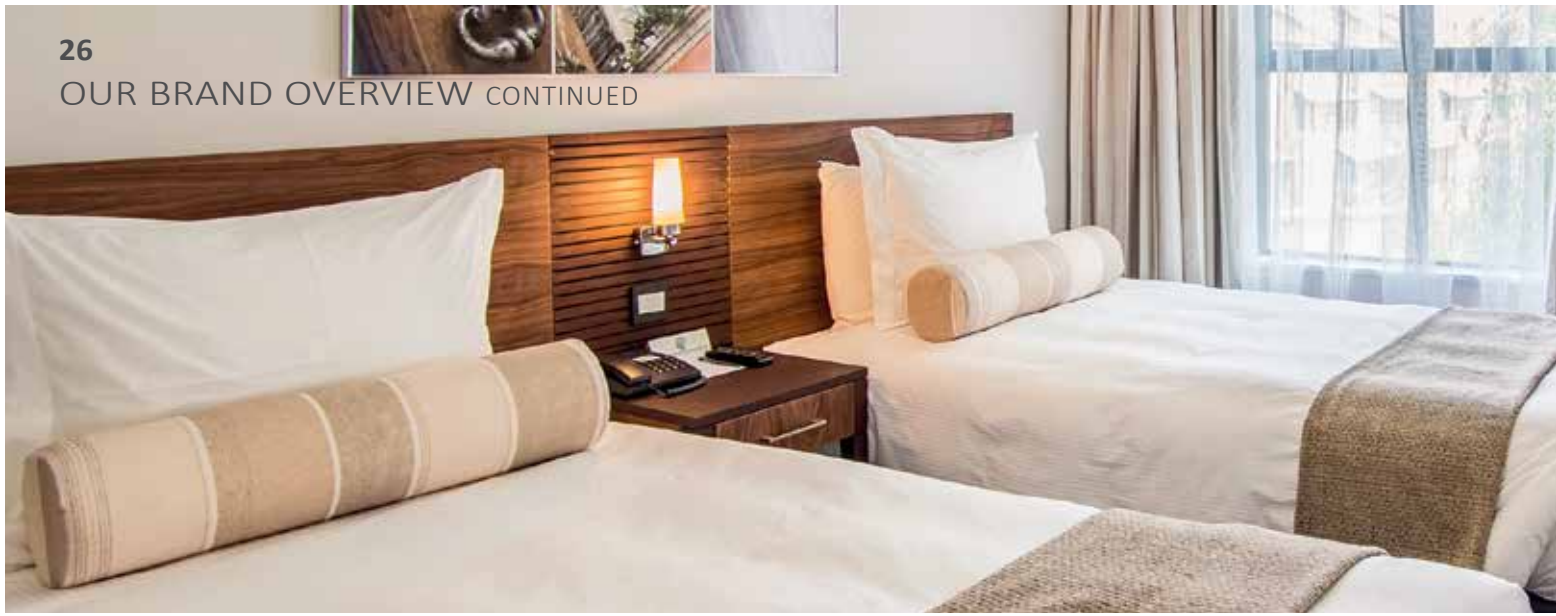




## A TRAVELLER'S OASIS

Located on two hectares of beautifully landscaped and manicured gardens, this hotel combines comfort and style to suit both business and leisure travellers. It offers excellent access to the Nairobi CBD and the city's two main airports.

Apart from comfortable rooms and apartments, the hotel also offers free wireless internet, conferencing, a wine bar, a swimming pool and excellent dining facilities for all meals.





## SUPERIOR SERVICE, IMPECCABLE STYLE

Each of our five Courtyard hotels has its own distinct character and personality, but each also has the same goal – to provide guests with an excellent accommodation experience in an elegant environment.

From access to a personal shopping service, to the benefit of an early evening courtesy bar, guests are given the sort of special treatment to be expected from a brand that goes out of its way to meet needs and surpass expectations.

With its spacious accommodation options ranging from studio through to two-bedroom luxury rooms, the Courtyard brand offers a large degree of self-sufficiency with guests having access to their own kitchenette, lounge and dining areas.







## IDEAL FOR BUSINESS OR LEISURE

City Lodges have established an enviable reputation as providers of ideal services and features for both business and leisure travellers.

From their scrumptious breakfasts, coffee shops and sundowner bar services, through to their spacious en-suite bedrooms and inviting swimming pools, they have all that guests need to enjoy a home-away-from-home experience in outstanding locations with ample safe parking.



**TOWN LODGE**  
BY CITY LODGE HOTELS





## CONVENIENCE WITH A SMILE

Town Lodges offer affordable accommodation in convenient locations.

While their bedrooms are slightly smaller than those at City Lodges, they offer many of the same services such as friendly staff, great breakfasts, sundowner bar services and swimming pools, along with lots of free safe parking.





## VALUE, VALUE, VALUE!

Superbly located for budget-conscious business and leisure travellers, Road Lodges provide incredible value for money without scrimping on quality.

One, two or three guests can share a comfortably furnished and decorated room for the single room rate.

Continental breakfasts and ample free safe parking are also provided.

## WHO GOVERNS US

**Bulelani Ngcuka (62)<sup>†</sup>****Chairman**

BProc, LLB, MA (Webster University,  
Geneva, Switzerland)

*Appointed to the board in 2008*

**Frank Kilbourn (55)<sup>■#</sup>****Lead independent**

BCom, LLB, BA Honours  
(Philosophy, cum laude), HDip (Tax),  
LLM

*Appointed to the board in 1996*

**Stuart Morris (70)<sup>■#</sup>**

BCom, Chartered Accountant (SA)

*Appointed to the board in 2006*

**Clifford Ross (59)<sup>—#</sup>**

Dip (Hotel Management), Advanced  
Management Programme (Cornell)

*Appointed to the board in 1991*

**Skills and expertise**

Legal and general business expertise

**Serves on the board of the following listed companies:**

Buildmax Limited  
CSG Holdings Limited (chairman)

**Other:**

Vuwa Investments Proprietary Limited  
Menzies Aviation (South Africa)  
Proprietary Limited  
Coega Autospray Proprietary Limited  
Amadlelo Agri Proprietary Limited  
BetterGroup Limited  
Leapfrog Property Group Proprietary  
Limited

**Skills and expertise**

Areas of expertise include legal,  
finance, corporate finance,  
private equity, venture capital,  
empowerment, investment,  
mining and tourism

**Serves on the board of the following companies:**

Bright Resources Investments  
Proprietary Limited  
Manganese Metal Company  
Proprietary Limited  
Strauss & Co (executive chairman)

**Skills and expertise**

Areas of expertise include strategy,  
finance, audit, risk, accounting, tax,  
compliance, human resources and  
general management

**Serves on the board of the following listed companies:**

Group Five Limited  
Hudaco Industries Limited  
Zurich Insurance Company  
South Africa Limited

**Other:**

Rolex Watch (South Africa)  
Proprietary Limited  
Sasol Pension Fund  
Wits Donald Gordon Medical Centre  
Proprietary Limited

**Skills and expertise**

Areas of expertise include  
strategy, management and  
operations within the hotel industry

**Serves on the following tourism boards:**

Tourism Business Council of  
South Africa  
Federated Hospitality Association  
of Southern Africa  
Tourism Enterprise Partnership  
STH – UJ School of Tourism and  
Hospitality

### George Gideon (Deon) Huysamer (53)<sup>#U■</sup>

BA LLB

*Appointed to the board in 2015*

### Andrew Widegger (50)<sup>— # ∇ Δ □</sup>

Chartered Accountant (SA)

*Appointed to the board in 1994*

### Ndumi Medupe (45)<sup>■ U #</sup>

Chartered Accountant (SA)

*Appointed to the board in 2006*

### Keith Shongwe (52)<sup># U Δ</sup>

BSc, MBChB

*Appointed to the board in 2002*

### Vincent Rague (63)<sup>\* U #</sup>

BA Honours (Economics and Statistics)

*Appointed to the board in 2016*



#### *Skills and expertise*

Areas of expertise include legal, tourism, management and management consulting, corporate finance, consulting, investment analysis, stockbroking and wealth management

#### *Serves on the board of the following companies:*

Brand South Africa  
MAD Charity and Children's Eco Training  
Member of Executive Committee of the Klaserie Private Nature Reserve

#### *Skills and expertise*

Areas of expertise include accounting, finance and management, property development and operations within the hotel industry

#### *Skills and expertise*

Areas of expertise include audit, risk, governance and financial management

#### *Serves on the board of the following companies:*

Indyebo Consulting (founder and chief executive)  
Pinnacle Holdings Limited  
Italtile Limited  
Futura Footwear Limited

#### *Skills and expertise*

Areas of expertise include business development, consulting, management, technology, project management and healthcare

#### *Skills and expertise*

Areas of expertise include banking, investment, project and corporate finance

#### *Serves on the board of the following companies:*

Catalyst Principal Partners,  
Financial Sector Deepening Africa Group Five Limited  
Pan-Africa Infrastructure Development Funds  
Kenya Airways

- Member of audit committee
- Member of executive committee
- † Member of remuneration and nomination committee

- △ Member of social and ethics committee
- # Member of risk committee
- ↳ Executive director
- ∪ Independent non-executive

- By invitation – audit committee
- ∇ By invitation – remuneration and nomination committee
- \* Kenyan

## WHO LEADS US

Clifford Ross (59)<sup>#</sup>⊠△▽□

*Chief executive*

Dip (Hospitality Management),  
Advanced Management Programme  
(Cornell)

*29 years with the company*

Andrew Widegger (50)<sup>#</sup>⊠△▽□

*Financial director*

Chartered Accountant (SA)

*23 years with the company*

Patrick Tate (60)<sup>#</sup>

*Divisional director – operations*

Dip (Hotel Management)

*28 years with the company*

Alastair Dooley (37)<sup>#</sup>□

*Divisional director – financial*

Chartered Accountant (SA)

*7 years with the company*

Lindiwe Sangweni-Siddo (49)<sup>#</sup>

*Divisional director – operations*

Dip (Hotel Management)

BSc (Penn State University)

*Appointed in 2015*





**Naynesh Parbhoo (43)<sup>#</sup>**

*Divisional director – accounting*  
Chartered Accountant (SA)

*18 years with the company*

**Ross Phinn (45)<sup>#</sup>**

*Divisional director – operations*  
Dip (Hotel Management)

*19 years with the company*

**Peter Schoeman (51)<sup>#</sup>**

*Divisional director – sales and marketing*

Dip (Hospitality Management)

*22 years with the company*

**Marcel Kobilski (52)<sup>#U</sup>**

*Divisional director – human resources*

Dip (Hospitality Management), BBA

*20 years with the company*

**Tony Balabanoff (56)<sup>#</sup>**

*Divisional director – operations*  
BTech (Hospitality Management),  
Advanced Management Programme  
(Cornell)

*30 years with the company*



# Member of executive committee

△ Member of social and ethics committee

∩ Member of risk committee

↘ Executive director

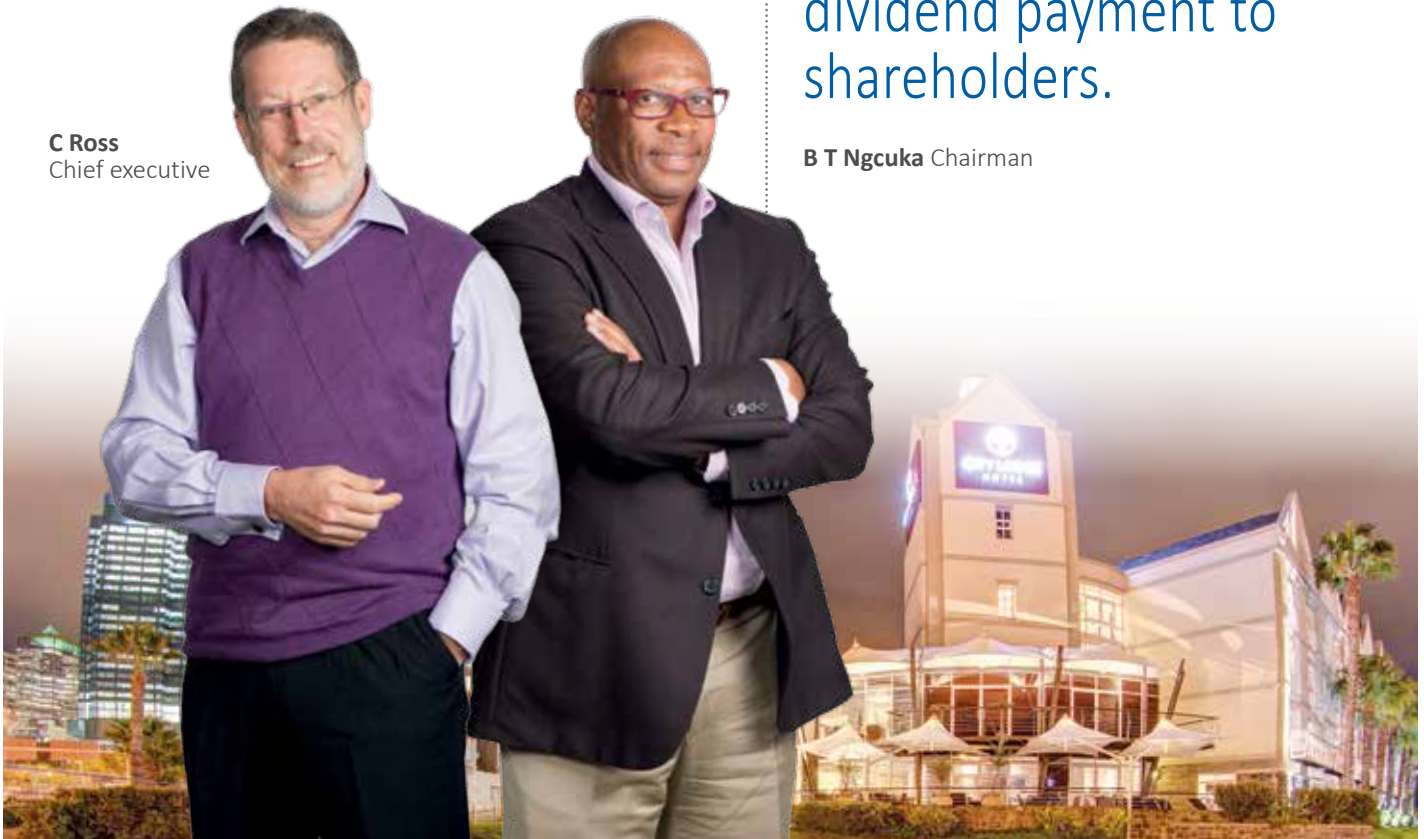
□ By invitation – audit committee

▽ By invitation – remuneration and nomination committee

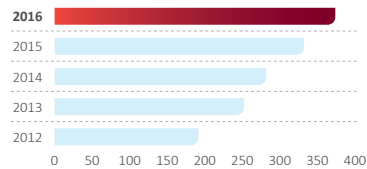
Over the past 31 years, we have always run profitable and cash-generative operations that have produced a good return on equity and a consistent dividend payment to shareholders.

**C Ross**  
Chief executive

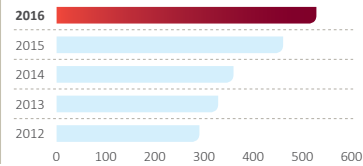
**B T Ngcuka** Chairman



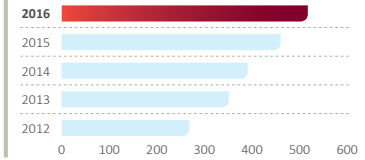
### Normalised headline earnings



### Normalised operating profit



### Dividends per share



### Dear stakeholder

With a “why choose City Lodge” thread running through this year’s Integrated Report, it is fitting for us to reflect on some of the most important things our group does to continue being successful in the vibrant hospitality industry, as well as being a major socio-economic contributor to South Africa and selected parts of east and southern Africa.

Over the past 31 years, we have always run profitable and cash-generative operations that have produced a good return on equity and a consistent dividend payment to shareholders. Our focus has always been on refreshing and refurbishing our hotels to keep them in tip-shop shape, modern and relevant in a highly competitive business and leisure travel environment.

Choosing the right locations has always been critical to the group’s penetration and success and this continues to be vital as our brands grow their footprint into other African countries. Effective and efficient booking systems and platforms have underpinned accessibility and convenience for our guests, making it easy for them to choose to stay at our hotels.

Commitment to service excellence has always been at the heart of our operations and is currently supported by our wide-ranging “I’m Kind” programme which makes a big difference in the lives of many people on a regular basis.

Through our innovative supplier development and support programmes, we have been able to assist several businesses to flourish and grow and create much-needed employment

opportunities in many cities and towns. In addition, our corporate social investment (“CSI”) initiatives have made their mark in various communities over the past three decades.

Significantly, we have also enabled our guests to play a CSI role through our online charities. Simply by staying with us, they can choose one of our online charities – currently Hospice and Food & Trees for Africa – and our group makes a donation on their behalf.

When it comes to sustainability, environmental awareness and energy efficiency, we have made great strides and made it increasingly attractive for environmentally savvy travellers to stay at our hotels.

Feedback from guests has always been a crucial consideration for our group and this has grown into a very strong social media presence on platforms such as Facebook and Twitter. These platforms, as well as a live chat facility linked to our website, have enabled us to interactively engage with our guests.

A particularly pleasing endorsement of our group by guests – and a resounding answer to the “why choose City Lodge” question – is the fact that no fewer than 14 of our hotels received TripAdvisor Certificates of Excellence in 2016.

### GROWING OUR BRAND FOOTPRINT

Expansion of our South African and broader African footprint took a significant step forward in 2015/2016 with the opening of two new hotels in South Africa – Road Lodge Pietermaritzburg and City Lodge Hotel Newtown – and the commencement of construction on the

169-room City Lodge Hotel Two Rivers in Nairobi, Kenya, the 147-room City Lodge Hotel Dar es Salaam, Tanzania and the 151-room Town Lodge Windhoek, Namibia.

Our two newest South African hotels are already making a mark in their business and leisure travel markets and we are optimistic that our new African hotels will swiftly find their niche when they open in the third and fourth quarters of 2017.

Construction of City Lodge Hotel Two Rivers began in November and the hotel is on track to open in July 2017. Site handover for City Lodge Hotel Dar es Salaam took place in

May and the hotel is scheduled to open in the fourth quarter of 2017.

In Kampala, Uganda, the opportunity previously announced has not been pursued as a financially viable outcome could not be negotiated with the landlord. Investigations are under way into locating an alternative site that meets the group's investment criteria.

In Windhoek, Namibia, handover of the completed basement above which our 151-room Town Lodge Windhoek is being built, took place at the end of July. This hotel is expected to open in July 2017.

Final approvals are still being sought for the development of the 148-room City Lodge Hotel Maputo in Mozambique. It is hoped that construction will commence in the current quarter for completion in the first quarter of 2018.

Our group remains on the lookout for suitable development opportunities in South Africa, southern Africa and east Africa.

### FINANCIAL HIGHLIGHTS

Average occupancies for the group's operations decreased by one percentage point to 66%. South African occupancies were generally negatively impacted by low business confidence, poor consumer sentiment and negligible economic growth, which resulted in the South African occupancy also declining by one percentage point to 66%.

The six-month period to the end of June was furthermore affected by a public holiday in South Africa in March, which fell on a Saturday in the previous year. In addition, the pattern of the balance of the public holidays fell on days that particularly disrupted business travel. This was partially offset by an improvement in leisure tourism numbers at the group's coastal hotels, but this was not sufficient to offset the softer business travel segment, given that two-thirds of the group's hotels are inland and as such do not benefit as much from domestic or foreign leisure travel.



Botswana occupancies fell by a similar percentage, but occupancies at both Kenyan hotels continued the growth trend of the first six months.

Total revenue for the year grew by 14,6% to R1,5 billion, with a full year's contribution from City Lodge Hotel Waterfall City, the opening of the 90-room Road Lodge Pietermaritzburg in December, the opening of the 148-room City Lodge Hotel Newtown in February and the first full year consolidation of Courtyard. Average rooms rates achieved at the South African operations increased by slightly more than the rate of inflation.

In South Africa, operating costs increased by 9,8% on a per room sold basis, resulting in a 0,3% percentage point increase in the South African normalised EBITDA margin to 41,5%. The total normalised EBITDA margin was in line with the previous year, resulting in an increase in normalised EBITDA of 14,2% to R624,9 million. Depreciation rose by 11,6%, interest income was R2,5 million lower and interest expense was R5,6 million higher due to higher average borrowings and interest rates.

Normalised headline profit before tax for the group increased by 12,4% to R511,8 million, while normalised headline earnings increased by 12,5% to R373,7 million. Normalised diluted headline earnings per share rose by 13,2% to 859,9 cents.

In line with the group's established policy of paying out 60% of normalised earnings, the final dividend increased by 7,8% to 248 cents, bringing the total dividend for the year to 517 cents, which is an increase of 12,4 % on the previous year.

### **MAKING FURTHER TECHNOLOGY AND LOYALTY PROGRAMME STRIDES**

Information technology has long played a critical role in driving our business and making our hotels as easy to book as possible.

The first phase of our proprietary Lodgix property management system was rolled out across our group between July 2015 and January 2016 and the second phase is now underway. Lodgix has been successfully embedded into our operations and brings advantages for our hotels and our guests – such as customer relationship management, more efficient check-in and check-out, and improved internal controls.

In conjunction with Lodgix is the implementation of Loconn, our proprietary central reservation system which has reduced licence and transaction fees for using other booking channels and third-party platforms. Loconn is now linked to our website for direct internet bookings and to channels such as Expedia, Galileo and Amadeus. Our aim is to continue evolving this system so that it includes other booking channels.

As an innovative group, we will continue to invest in developing our business processes to enhance efficiencies and meet growing compliance requirements, including legislation relating to immigration and the protection of personal information.

Our Bid2Stay auction website was a first when we introduced it many years ago and it is now being redeveloped with changes to its platform and bidding mechanism. The refreshed edition will be rolled out in the first quarter of the 2017 financial year.

Similarly, our loyalty programmes – Lodger Club and Corporate Club – have been integrated with our website, allowing for further enhancements. The aim is to expand the access and reach of our loyalty programmes to other channels, enabling more guests to benefit from their regular stays at our hotels.

Considerable progress has also been made in our telephony and wifi offerings with trialling demonstrating positive outcomes for our hotels and our guests from a cost and seamless efficiency point of view.

### **ENVIRONMENTALLY FRIENDLY INNOVATION**

Adding on to our highly impactful energy efficiency programme that has reduced our carbon footprint over the past few years, we are piloting another new programme and planning to pilot a further one.

At our new Road Lodge Pietermaritzburg, we have installed a grey water treatment plant which is able to treat water expelled from the laundry so that it can be used for irrigation in a portion of the garden. Based on this project, we are using the data obtained to be able to assess the feasibility of installing similar products into new hotels, and where possible as retrofits into some of our existing hotels. This project is still in its infancy, but demonstrates our commitment to finding various ways of reducing water consumption in our operations.

With regards to solar, we have identified a possible project, which if economically feasible, will see the commencement of a 12-month pilot on using solar generated electricity to provide some of the electricity at one of our Gauteng-based hotels. Also under consideration is incorporating this project into a supplier development initiative in supporting a black-owned enterprise.

### **CONTINUING TO GROW OUR PEOPLE**

It goes without saying that our people play a hugely important role in our ongoing success. This has influenced us to develop an “employer-employee value statement” that will be included in the careers section

of our website and form part of our recruitment module in our human resources system.

With our focus constantly on developing our people, it is gratifying to note that nine of our current general managers (“GMs”) have come through our Accelerated Development and Deployment Programme which retains our culture within our management ranks. Four assistant managers are now in the programme and two are in our graduate internship programme.

In addition, 22 of our GMs will be participating in the American Motel and Hotel Association’s Certified Hotel Administrator programme which is being run in Durban by the International Hotel School. They will be working towards receiving certificates of excellence from this elite programme which emphasises cooperative education and work integrated learning.

Two of our GMs – Susan de Jager-Cranston and Roslyn Khumalo – have been nominated to participate in the Executive Development Programme for Women in Tourism which is run by Unisa and sponsored by the Department of Tourism.

Importantly, several members of our executive and management team participate in industry bodies, ensuring that we as a group provide strong input for the ongoing development of hospitality and tourism.

Chief executive, Clifford Ross, is a longstanding board member of FEDHASA, the Tourism Business Council of South Africa (“TBCSA”), University of Johannesburg’s School of Tourism and Hospitality (“UJSTH”) and the Tourism Enterprise Partnership. Divisional operations director, Ross Phinn, is on the board of FEDHASA’s inland region, divisional finance director, Alastair Dooley, is on the board of Tourism Levy South Africa (“TOMSA”), divisional human resources director, Marcel Kobilski, is on the advisory boards of the International Hotel School and Investors in People, divisional operations director, Lindiwe Sangweni-Siddo, is a member of the B-BBEE Tourism Charter Council, and group skills facilitator, Sheree Snyman, is involved in curriculum development at the UJSTH.

Gericke Visser, GM of Town Lodge George, won the Businessman of the Year Award from the George Chamber of Commerce.

Looking to the future, we also continue to develop succession pools to ensure that we are constantly building and developing management talent to run our growing family of hotels.

### **CHANGES TO OUR BOARD OF DIRECTORS**

During the year we welcomed Nairobi-based Vincent Rague to our board. He is already playing a valuable role in providing guidance and counsel for our ongoing expansion in east Africa.

We bade farewell to Wendy Tlou in May. She played a valuable role on the board for several years and we wish her all the best in her future endeavours.

### **OUTLOOK**

The 2017 financial year started off with slightly softer occupancies than in the previous year, mainly due to the lead-up to and the additional public holiday for the 3 August local government election.

With the local government elections behind us and very few new hotel rooms coming onto the market, our belief is that the upward occupancy trend that began in late 2011 will now be resumed.

### **THANKS**

We have been able to answer the “why choose City Lodge” due to the ongoing efforts of many fantastic people who make our group successful and special. These people include the group’s dedicated staff and management in all 57 of our hotels, insightful and committed fellow directors,

efficient suppliers and service providers, and of course, those very vital people – our discerning guests. A huge vote of thanks to everyone who played a role in helping our group complete the first year of its fourth decade, enabling us to tackle another year with confidence and enthusiasm.

**Bulelani Ngcuka**  
*Chairman*

**Clifford Ross**  
*Chief executive*

## SEVEN-YEAR FINANCIAL REVIEW

R'm	2016	2015	2014	2013	2012	2011	2010
<b>Consolidated normalised income statements</b>							
Revenue	<b>1 493,2</b>	1 303,1	1 062,8	975,9	875,8	790,2	749,1
EBITDA	<b>624,8</b>	547,1	438,2	407,6	368,9	330,4	384,9
Depreciation and amortisation	<b>(96,4)</b>	(86,4)	(78,4)	(79,0)	(78,4)	(73,1)	(47,3)
Operating profit	<b>528,4</b>	460,7	359,8	328,6	290,5	257,3	337,6
Net interest (expenditure)/income	<b>(16,4)</b>	(6,2)	3,3	(5,5)	(9,0)	(12,0)	(0,6)
Fair value gain on remeasurement of investment in joint venture	–	60,0	44,7	–	–	–	–
Income/(loss) from joint ventures	–	1,6	21,3	16,0	(0,1)	0,6	7,0
Profit before taxation	<b>512,0</b>	516,1	429,1	339,1	281,4	245,9	344,0
Taxation	<b>(138,2)</b>	(123,6)	(102,2)	(86,8)	(89,6)	(81,6)	(110,5)
Profit for the year	<b>373,8</b>	392,5	326,9	252,3	191,8	164,3	233,5
Determination of normalised headline earnings							
Normalised profit for the year	<b>373,8</b>	392,5	326,9	252,3	191,8	164,3	233,5
Fair value gain on remeasurement of investment in joint venture	–	(60,0)	(44,7)	–	–	–	–
Gain on bargain purchase	–	–	(0,6)	–	–	–	–
Profit on sale of equipment	<b>(0,2)</b>	(0,7)	–	(0,2)	(0,1)	(1,4)	(0,6)
Taxation effect	<b>0,1</b>	0,3	–	0,1	–	0,2	0,2
Headline earnings	<b>373,7</b>	332,1	281,6	252,2	191,7	163,1	233,1



R'm	2016	2015	2014	2013	2012	2011	2010
<b>Consolidated normalised statements of financial position</b>							
Assets							
Non-current assets	<b>1 929,4</b>	1 809,2	1 535,7	1 295,3	1 149,8	1 173,9	1 124,0
Property, plant and equipment	<b>1 844,1</b>	1 740,2	1 453,8	1 068,6	1 092,5	1 118,9	1 073,0
Intangible assets and goodwill	<b>45,6</b>	32,6	15,3	–	–	–	–
Investments and loans	<b>34,0</b>	31,7	63,0	222,6	54,3	52,0	48,0
Deferred taxation	<b>5,7</b>	4,7	3,6	4,1	3,0	3,0	3,0
Current assets	<b>305,2</b>	221,1	175,7	75,5	142,6	75,6	105,4
<b>Total assets</b>	<b>2 234,6</b>	2 030,3	1 711,4	1 370,8	1 292,4	1 249,5	1 229,4
Equity							
Total shareholders' funds	<b>1 607,7</b>	1 439,8	1 238,1	1 051,9	915,2	840,6	805,9
Share capital and premium	<b>168,0</b>	164,0	158,3	154,7	148,8	147,6	145,1
Incentive scheme shares	<b>(19,5)</b>	(11,0)	(22,1)	(17,1)	(17,1)	–	–
Reserves	<b>1 459,2</b>	1 286,8	1 101,9	914,3	783,5	693,0	660,8
Liabilities							
Non-current liabilities	<b>497,9</b>	470,7	376,2	181,8	166,2	254,7	321,4
Interest-bearing borrowings	<b>270,0</b>	250,0	185,0	–	–	125,0	230,0
Other non-current liabilities	<b>102,2</b>	113,4	105,9	113,0	94,6	56,2	22,3
Deferred taxation	<b>125,7</b>	107,3	85,3	68,8	71,6	73,5	69,1
Current liabilities	<b>129,0</b>	119,8	97,1	137,1	211,0	154,2	102,1
<b>Total equity and liabilities</b>	<b>2 234,6</b>	2 030,3	1 711,4	1 370,8	1 292,4	1 249,5	1 229,4

		2016	2015	2014	2013	2012	2011	2010
<b>Ordinary share performance</b>								
Shares in issue	000	<b>43 407</b>	43 347	43 221	43 123	42 989	42 929	42 815
Normalised weighted average shares in issue	000	<b>43 226</b>	43 168	42 875	42 818	42 827	42 854	42 779
Normalised diluted headline earnings per share	cents	<b>859,9</b>	759,9	643,1	578,3	442,8	379,0	540,8
Dividends per share	cents	<b>517,0</b>	460,0	391,0	351,0	268,0	228,0	327,0
Normalised dividend cover	times	<b>1,7</b>	1,7	1,7	1,7	1,7	1,7	1,7
Normalised net asset value per share	cents	<b>3 704</b>	3 322	2 865	2 439	2 129	1 958	1 882
Normalised net operating cash flow per share	cents	<b>1 172,5</b>	935,6	797,7	815,2	682,9	580,7	764,3
Profitability and liquidity (normalised)								
EBITDA margin	%	<b>41,9</b>	42,0	41,2	41,8	42,1	41,8	51,4
EBITDAR margin	%	<b>47,5</b>	47,7	48,0	48,4	49,0	48,7	53,4
Operating margin	%	<b>35,4</b>	35,4	33,9	33,7	33,2	32,6	45,1
Effective tax rate	%	<b>27,0</b>	24,0	23,8	25,6	31,9	33,2	32,1
Return on ordinary shareholders' funds	%	<b>24,5</b>	24,8	24,6	25,6	21,8	19,8	31,0
Interest-bearing debt to total shareholders' funds	%	<b>16,8</b>	17,4	14,9	3,3	13,7	23,8	28,5
Current ratio	:1	<b>2,4</b>	1,9	1,8	0,6	0,7	0,5	1,0

## DEFINITIONS

### Normalised headline earnings

Headline earnings adjusted for the effects of transactions relating to BEE or those of a non-recurring/core nature.

### Normalised headline earnings per share

Normalised profit before exceptional items divided by the weighted average number of ordinary shares in issue.

### Normalised diluted headline earnings per share

Normalised headline earnings divided by the sum of the weighted average number of ordinary shares in issue and any outstanding share options in issue.

### Dividend cover

Normalised diluted headline earnings per share divided by dividends declared per share.

### Normalised net asset value per share

Total normalised shareholders' funds divided by the number of ordinary shares in issue at the year-end.

### Normalised net operating cash flow per share

Net cash inflow from operating activities, before dividends, divided by the weighted average number of ordinary shares in issue.

### EBITDA

Normalised earnings before interest, taxation, depreciation and amortisation.

		2016	2015	2014	2013	2012	2011	2010
<b>Stock exchange performance</b>								
Market price per ordinary share								
– Closing	Rand	<b>155,52</b>	138,99	127,00	120,00	84,95	65,23	76,85
– Highest	Rand	<b>173,00</b>	159,00	143,01	134,00	90,00	87,25	85,75
– Lowest	Rand	<b>129,00</b>	112,01	107,33	78,00	57,51	64,00	67,50
Total market capitalisation	R'm	<b>6 751</b>	6 025	5 489	5 175	3 651,9	2 800,2	3 290,4
Normalised fully diluted closing price-earnings multiple	times	<b>18,1</b>	18,3	19,8	20,8	19,2	17,2	14,2
Volume traded								
– Ordinary shares	000	<b>9 217</b>	14 162	9 397	10 531	13 517	16 280	12 038
Other								
Number of hotels		<b>57</b>	55	54	55	52	52	50
Number of rooms		<b>7 072</b>	6 834	6 685	6 755	6 440	6 440	6 053
Group average occupancy	%	<b>66</b>	67	63	62	59	56	70

## DEFINITIONS CONTINUED

### EBITDA margin

Normalised EBITDA expressed as a percentage of revenue.

### EBITDAR

Normalised earnings before interest, taxation, depreciation, amortisation and rental.

### EBITDAR margin

Normalised EBITDAR expressed as a percentage of revenue.

### Operating margin

Normalised operating profit expressed as a percentage of revenue.

### Effective tax rate

Taxation per the normalised income statement expressed as a percentage of normalised profit before taxation.

### Return on ordinary shareholders' funds

Normalised headline earnings attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' funds.

### Interest-bearing debt to total shareholders' funds

Normalised interest-bearing debt expressed as a percentage of total normalised shareholders' funds.

### Current ratio

Normalised current assets divided by normalised current liabilities.

## OUR STRATEGY MEASURED

In being a guest-centric selected service hotel group, we believe that what really makes a difference is the way in which our passionate people deliver caring service to our guests with kindness. This is the reason why we have formed a base of loyal guests, who have continued to stay with us over the past 31 years. It is with this in mind that we analyse our strategic achievements of the past year, and look to unpack how we will continue to deliver on our long-term sustainability to you, our providers of capital. After all, that is why you choose the City Lodge Hotel Group.



### **TO CONSOLIDATE OUR POSITION WITHIN SOUTH AFRICA**

#### **Occupancy performance**

The group's South African occupancies for the period reflected an occupancy of 66% compared to 67% in the prior year. Occupancies in the second half of the financial year declined largely as a result of poor economic performance and negative business sentiment. While the location of the majority of the group's hotels cater towards the business traveller, some locations do benefit from leisure travel business. Demand was subdued, despite the weak Rand making South Africa a value for money destination, as the continued effects of the restrictive visa regulations deterred many foreign travellers from visiting South Africa during this time. The reduction in government business travel in the lead up to the local government

elections and as a result of exercising fiscal constraint also had an impact on this typically growing source of business, which we anticipate will resume following the August elections.

With relatively low levels of new inventory coming to market in the past year, the group is well positioned to benefit from the uptick in economic activity.

#### **Average daily rates ("ADR")**

In line with the ADR of the industry, the group has seen an improvement in current achieved room rates. This improvement is not as significant as for the rest of the industry due to the consistent rate philosophy of the group over the long term. This philosophy results in more predictability for corporate travellers.

In order to drive occupancy growth over weekends, the group has a number of "Special" rates in place to encourage group and family travel. Participating in South African Tourism's Sho't Left campaign, encouraging South Africans to travel locally, further promotes our various hotel brands to new markets. Our unique auction website, [www.bid2stay.co.za](http://www.bid2stay.co.za), allows guests to bid online for discounted accommodation across our portfolio in South Africa. These rates are particularly competitive for the cost-conscious traveller.

#### **Expanding in South Africa**

This year saw the opening of our new 148-room City Lodge Hotel Newtown, in downtown Johannesburg. This uniquely South African property has been featured extensively in the images used in this year's Integrated Report. Our 90-room Road Lodge Pietermaritzburg also opened its doors this year, being our first hotel in this city. Both hotels will take approximately 18 to 24 months to establish themselves in their respective markets, offering our guests even more locations to choose from.

#### **Keeping our hotels in great shape**

Over the past year our refurbishment programme has seen several of our South African hotels undergo major upgrades including City Lodge Hotel GrandWest, City Lodge Hotel Pinelands, Town Lodge Mbombela and Courtyard Eastgate, ensuring that we continue to offer world-class accommodation facilities, features and services to our domestic and international guests.

Continuous focus on quality is maintained at all our hotels through our ongoing maintenance and minor refurbishment programmes, keeping our hotels fresh and in good condition.

#### **Guest satisfaction**

Knowing what our guests think about us is key to being able to deliver on our value proposition. Guest comments and feedback are received internally by e-mail at [info@clhg.com](mailto:info@clhg.com) and online through the

Rate-Us guest questionnaire, and externally by monitoring posts on various social media platforms, including Hellopeter.com, TripAdvisor, Facebook and Twitter, where all comments are analysed, compliments are acknowledged and complaints are attended to.

The Rate-Us questionnaire received a total number in excess of 16 500 responses during the year, yielding an average customer satisfaction score of 86% (2015: 85%). This improvement bears testament to the fact that we are constantly striving to deliver an even better guest experience. TripAdvisor also chose no fewer than 14 of our hotels to receive Certificates of Excellence for 2016, based squarely on guest experiences.

### Human capital

As a quality hotel provider, one of the most important contributors towards the success of our group is the performance of our people. The management of our human capital is therefore a significant focus point for the group. Our bronze level “Investor in People” recognition clearly demonstrates our ongoing commitment towards growing and empowering our people – which is why they choose to work for us. The provision of an employee value proposition (“EVP”) that also highlights clearly defined career pathing and succession planning, demonstrates its efficacy in the following comparative turnover information. Our current level of turnover at 8,71% per annum, is below that of the industry.

Year	Involuntary turnover	Voluntary turnover	% of total headcount
2013/14	57	29	7,83
2014/15	61	24	7,74
2015/16	<b>62</b>	<b>43</b>	<b>8,71</b>

The group talent manager, assisted by line management, is responsible for the attraction, development and retention of high-calibre employees. All employees are afforded an annual development appraisal, ongoing assessments and feedback from supervisors and management. These ensure that skills and knowledge gaps are identified within current positions. Suitable employees for development into and within supervisory and management levels are acknowledged and proposed for inclusion into succession pools or developed towards such. An emphasis is placed on the development of previously disadvantaged individuals in order to ensure that the group can work progressively towards achieving its employment equity targets.

In order to enhance the recruitment experience of prospective employees in future, a new online module will be launched in the coming year, to cater for the group’s growing recruitment needs on the continent.

### Training and development

Providing an environment where our people can learn and develop further skills is key to delivering on our EVP. Our skills development committee meets at least bi-annually in order to assess the group’s skills development requirements.

The committee is mandated to deal with skills development issues and committee members possess the necessary knowledge of legislation in this regard. The committee comprises the divisional director: human resources, the group’s skills development facilitator, a union representative, shop stewards from the regions and members of staff from different levels and backgrounds elected by their constituencies.

Our innovative e-learning platform allows for training spend to be better utilised on content delivery, as opposed to on logistical expenses. This system will be utilised to deliver the ongoing training requirements of the group’s bespoke

## OUR STRATEGY MEASURED CONTINUED

property management system, Lodgix. In some instances, face-to-face engagement is essential and these learning experiences continue to be delivered in person.

Developing the youth is an essential component of the long-term talent pipeline of our group. We are able to do so by providing learnership opportunities, both internally and externally, as well as graduate internships for students with diploma and degree level hospitality qualifications. These programmes also cater for the needs of disabled learners, which has resulted in the direct employment of eight learners during the year.

Performance against the annual workplace skills plan is monitored by our registered skills development facilitator. All skills levy grants available to the company have been paid out by CATHSSETA for the 2016 period.

A total of 48 people were promoted within the group during the year, 77% of whom were female.

	2016	2015
African	37	31
Coloured	8	9
White	3	14
<b>Total</b>	<b>48</b>	54

The comparative report below is aligned with the reporting periods for the Sector Education and Training Authorities and provides additional information on our training spend:

	1 January 2015 to 31 December 2015	1 January 2014 to 31 December 2014
% of total payroll spent on training	4,0	3,2
% of total payroll spent on training previously disadvantaged employees	3,4	2,7
Total number of interventions attended by all employees	9 459	8 736
Total number of interventions attended by black employees	8 215	7 391
Total number of interventions attended by black female employees	5 586	5 095
<b>Total spend on training and development</b>	<b>R9,0 million</b>	R6,1 million

With regards to the training considered as eligible for the pivotal grant, the following highlights are noted:

- Work integrated learning opportunities were provided to 121 hotel school students from hotel schools across South Africa. The main objective thereof is for them to gain practical experience pursuant to the completion of their formal learning programmes. It also gives the group the opportunity to assess these students for available employment opportunities. The group was recently recognised by the South African Society for Cooperative Education for its commitment to work integrated learning over the years, having hosted many hotel school students in their practical phase.
- City and Guilds qualifications – The group provides its permanent employees the opportunity of obtaining these

internationally recognised qualifications, thereby developing our people's skills, and contributing towards succession planning and career pathing. A total of 60 employees wrote and passed their City and Guilds exams in November 2015, gaining various certificates, diplomas and advanced diplomas. A further 74 employees are enrolled for 2016.

- The group provides learnership opportunities to employed and unemployed individuals and is currently involved in providing learnerships to 16 disabled learners, in partnership with the South African Disability Development Trust, who we hope to be able to employ full-time on their completion. To continue the programme into next year we have registered an additional 18 learners on this learnership programme, who will be working towards various qualifications.

### Employee and industrial relations ("ER and IR")

All ER and IR issues are dealt with in an inclusive manner, with the group preferring to invite participation on all substantive issues that may have an effect on the employment relationship or on employees' conditions of work. The group currently recognises, and has a recognition agreement with one trade union, SACCAWU, which is representative of 18,1% of total employees and 20,7% of those occupying positions within the defined bargaining unit.

As a result of our approach, no days have been lost due to industrial action during the year.

Our "high-performance people" programme is used for ER, with courses held periodically for supervisors and management. This programme is also made available to shop stewards from time to time to ensure a complete understanding of the company's policies and procedures. In addition, all levels of management are trained in the principles of "managing with intent" to ensure that best practice management techniques are applied within the group.

### Labour utilisation

The effective deployment of our human capital is monitored at hotel level, as well as centrally. An analysis of sick and absent days allows for the identification of instances where assistance or a specific intervention may be required, or where possible abuse may be suspected. The number of working days lost due to sickness and absence during the year was 1,5% of all working days available. Similarly, incidents of absence are monitored and dealt with through the group's disciplinary procedures.

### Health and safety

The safety and wellbeing of our guests and people are paramount. Although the group's properties do not represent dangerous environments, all necessary precautions and measures are taken to ensure their safety. These include adherence to strict guidelines in terms

of monitoring and implementing health and safety requirements. Each hotel has an established health and safety committee, as well as an appointed responsible person in terms of the Occupational Health and Safety Act.

The group makes use of a web-based solution to record and monitor all health and safety-related compliance, which allows a central view of overall compliance across the group. In addition, we maintain our commitment to ensuring that levels of hygiene, compliant with hazard analysis of critical control points ("HACCP") legislation, are maintained at all hotels.

The group ensures that all contractors engaged in the delivery of services to the group are equally compliant in terms of their adherence to health and safety requirements.

The following incidents were experienced during the year:

Nature of incident	Number of incidents		Outcome
	2015/16	2014/15	
In the kitchen – food preparation and cleaning	12	7	In all instances first aid was applied. In two instances staff were hospitalised briefly. There were, however, no instances of temporary or permanent disability that resulted from these incidents
Incidents on stairs and in built environment	7	3	
Due to carrying and lifting	0	0	
Repairs and maintenance related	4	0	
<b>Total</b>	<b>23</b>	10	

### The year ahead

Following on from the conclusion of the local government elections in South Africa, we are positive that we will see the growth trend, which commenced in 2011, resume. We believe that this assessment is substantiated by the various initiatives which the group has embarked on, which we expect to pay off in the short and medium term. We are well placed to benefit from any increased economic activity in the economies in which we operate.



### TO EXPAND OUR FOOTPRINT BEYOND SOUTH AFRICA'S BORDERS

Progress in growing our presence in southern and east Africa has continued over the past year at a slow but steady pace.

Construction on the 169-room City Lodge Hotel Two Rivers in Nairobi, Kenya is progressing well, with expected completion towards the middle of 2017. Work on the 147-room City Lodge Hotel in Dar es Salaam, Tanzania, has also commenced and is expected to be completed towards the end of the fourth quarter of 2017. The handover of the site for our 151-room Town Lodge Windhoek took place in July with completion

expected in July 2017. It is hoped that construction of the 148-room City Lodge Hotel in Maputo, Mozambique, will commence in the third quarter of 2016, following delays in obtaining the required regulatory approvals, with expected completion now in the first quarter of 2018.

Trading outside South Africa in Gaborone, Botswana, has continued to improve as the hotel establishes itself in the capital. Weekends, as in our inland hotels in South Africa, are however generally poorly occupied unless a major event is taking place.

The Kenyan operations showed some levels of improvement after experiencing declining occupancies in the previous two years. This improvement was despite a number of new competitor hotels in the market.

### Future expansion

Investigations into opportunities in the rest of Africa continued during the course of the year with visits to a number of countries in Africa, in order to identify suitable locations and investment opportunities. Where an opportunity is identified, a detailed feasibility is prepared taking into account a number of factors in

order to assess the likelihood of a hotel's success. This process is often a lengthy one, and may result in a significant amount of effort being lost if the parties are not able to reach satisfactory agreement on the terms.

It is anticipated that our non-South African hotel portfolio will comprise around 20% of our total number of rooms available and contribute 25% to 30% to our earnings once reaching operational maturity.



### TO CONTINUE TO TRANSFORM THE GROUP IN LINE WITH THE B-BBEE CODES OF GOOD PRACTICE

Transformation of the group remains a priority area of focus for us, particularly given the changing B-BBEE landscape within South Africa. Many of our guests and suppliers are interested in what the group does to embrace and comply with the amended Tourism Sector BEE Codes which were gazetted in November 2015. The group is currently a level 3 B-BBEE contributor. It is anticipated that the group's rating will drop when it is first measured against the revised targets in 2016, although we will qualify as an empowering supplier, we remain committed to improving our rating over time.



During the year, the group placed a significant amount of emphasis on educating our current suppliers and staff on the effects of the Revised Codes of Good Practice and on identifying new, black-owned SMMEs, to be introduced into the supply chain. Software allows for the monitoring of our performance against internal and sector targets in this regard. Our total managed procurement spend for the 2016 assessment was R430 million, with 103% being spent with BEE compliant suppliers and 27% being spent with qualifying small enterprises and exempt micro-enterprises.

#### Tourism Sector Charter

Scorecard element	Weighting	Score 2015/16	Score 2014/15
Ownership	15,00	<b>15,00</b>	15,00
Management control	14,00	<b>4,66</b>	4,66
Employment equity	14,00	<b>8,32</b>	8,13
Skills development	20,00	<b>17,41</b>	17,42
Preferential procurement	15,00	<b>14,28</b>	14,07
Enterprise development	14,00	<b>14,00</b>	14,00
Socio-economic development	8,00	<b>8,00</b>	8,00
<b>Total B-BBEE score</b>	100,00	<b>81,67</b>	81,28

While the majority of our transformation targets are driven centrally, there is a link to our hotel-based performance appraisal linked (“PAL”) bonus scheme, creating accountability at an operational level too.

#### Current measurement and performance

The group’s 2016 level 3 B-BBEE status, as measured against the Tourism Sector Charter, was verified by National Empowerment Rating Agency and is summarised below.

The group currently has an overall black ownership percentage of 26,26%. It has conducted a detailed evaluation of the impact of the revised tourism codes on it going forward, along with the potential continuing consequences following the end of the 2008 BEE deal lock-in period. The actual effect will only be known once the rating verification takes place, due to the current share price being a required input.

The lack of a readily available pool of skilled candidates from designated groups at senior and management levels continues to challenge our employment equity plans. Our ability to develop a pipeline through succession pools and attendant development programmes and the accelerated development and deployment programme (“ADDP”) will, however, mitigate this to a degree in the medium to long term.

The employment equity consultative committee meets at least bi-annually to assess progress towards the achievement of quantitative goals, as well as to consider the qualitative elements which may influence the aforesaid achievement of the goals. The committee is representative of all individuals in the company, and is currently chaired by the divisional director: human resources, appointed as the senior manager responsible for compliance with the Employment Equity Act, and enjoys the participation of the representative trade union.

## OUR STRATEGY MEASURED CONTINUED

The following comparative table displays the company's employee profile as at 30 June 2016 and as at 30 June 2015.

Occupational level	Year	Male				Female				Foreign nationals		Total
		African	Coloured	Indian	White	African	Coloured	Indian	White	M	F	
Top management	2016			1	8	1						10
	2015			1	9							10
Senior management	2016	5	3		32	1	1		20			62
	2015	3	3		33	1	1		22			63
Middle management	2016	3	3	2	22	18	4	2	18		1	73
	2015	5	2	3	22	16	4	2	19			73
Junior management	2016	40	12	1	19	102	25	2	18		1	220
	2015	35	12	1	23	102	19	1	17			210
Discretionary decision-making	2016	101	13	3	14	178	27	6	60	1		403
	2015	94	9	3	12	171	37	8	58		1	393
Defined decision-making	2016	118	12		4	177	36		1	3		351
	2015	112	13		5	179	37			2		348
Total permanent	2016	267	43	7	99	477	93	10	117	4	2	1 119
	2015	249	39	8	104	469	98	11	116	2	1	1 097
Non-permanent*	2016	21	3		1	51	7	1		1	1	86
	2015	14			1	36	3		4	1	3	62
Grand total	2016	288	46	7	100	528	100	11	117	5	3	1 205
	2015	263	39	8	105	505	101	11	120	3	4	1 159

\* Including 60 experiential learners.

Growing sustainable suppliers and businesses is a vital component of our broader transformation initiatives. By supporting them with human resource capacity, coaching and in some cases interest-free loan funding, we are able to support economic growth and job creation. In addition to these benefits, we continued to offer payments within two weeks of invoicing, to qualifying suppliers.

### Continuing to make a difference

As a group that always wants to make a difference in the society in which we operate, we also want to assist our guests to make a difference when they choose to stay with us. Our long-running Cuppa For CANSA campaign at Road Lodges has been helping the fight against cancer for more than a decade. By giving our online bookers a choice for us to contribute to either Hospice or Food & Trees for Africa, at no additional cost to them, we are also affording our guests the opportunity to help great causes by staying at our hotels.

Our ongoing relationships with organisations and events such as the MAD Foundation, the Sunshine Tour, the South African Golf Development Board, the RAC City Lodge Tough One 32 km road race also play a role in making a difference and helping to answer the question “why choose City Lodge Hotel Group?”. This difference was worth R3,4 million to our various beneficiaries during the past year.



### TO BE A LEADER WITHIN THE HOSPITALITY SECTOR IN ENVIRONMENTALLY SUSTAINABLE BUSINESS PRACTICES

As a group, we understand how important it is for our stakeholders that we conduct our business in an environmentally friendly and responsible way. Over the past few years we have developed and implemented policies, practices and targets to reduce and limit our impact on the environment and have encouraged some of our stakeholders to do the same and to join us on our journey. Through the introduction of our Earth Day campaign in our hotels, we highlighted the importance of staying sustainably to our guests and staff, by proclaiming every day to be Earth Day. While no laughing matter, the message was delivered in a somewhat shocking but humorous way, in keeping with our brand character. To validate our claims of being kind to the environment, the City Lodge Hotel brand was certified in accordance with the Green Leaf Eco™ Standard. Certifying only one of our brands did not mean that our efforts stopped there. Several of the initiatives implemented within this brand were implemented throughout the group’s hotels.

### Carbon footprint

Measuring and reporting your carbon footprint has become a globally accepted measure of one’s overall impact on the environment. While this is not the sole indicator of our performance in this area, we are proud of our achievements in reducing our overall impact on our planet. We have once again engaged a third-party expert to assist us in assessing our footprint for the year ended 30 June 2016. The scope of this year’s assessment was consistent with last year except for the fact that it includes the impact of City Lodge Hotel Newtown and Road Lodge Pietermaritzburg, which both opened during the year. Also included for the first time, emissions as a result of fuel and energy-related emissions (not included in Scope 1 and 2) and downstream transportation and distribution, are now included in Scope 3. Our total greenhouse gas (“GHG”) emissions emitted as a result of operational activities amount to 35 936 (2015: 29 600) tonnes of CO<sub>2</sub> equivalent (“CO<sub>2</sub>e”) as a result of the increased scope and changed methodology.

The reporting methodology used by Promethium Carbon advisers follows the reporting principles and guidelines provided by three complementary international standards, thereby enhancing the environmental integrity of the carbon footprint.

## OUR STRATEGY MEASURED CONTINUED

Source of emissions	WBCSD scope	2016		2015	
		Total CO <sub>2</sub> e (t/yr)	Proportion of total CO <sub>2</sub> e (%)	Total CO <sub>2</sub> e (t/yr)	Proportion of total CO <sub>2</sub> e (%)
Premises – LPG consumption	Scope 1	28	0,1	16,6	0,06
Premises – Backup diesel generators		89	0,3	225,4	0,8
Premises – Refrigerant gas loss		795	2,2	65,5	0,2
Premises – Fire extinguishers		40	0,1	0,3	0,001
<b>Subtotal</b>		<b>952</b>	<b>2,7</b>	307,8	1,0
Premises – Electricity consumption	Scope 2	29 619	82,4	26 337,5	89,0
<b>Subtotal</b>			<b>29 619</b>	<b>82,4</b>	26 337,5
<i>Upstream activities</i>	Scope 3				
Premises – Water consumption		901	2,5	220,1	0,7
Premises – Waste disposal		498	1,4	2 395,5	8,1
Business travel – Flights		139	0,4	305,7	1,0
Business travel – Employee-owned cars		18	0,05	32,9	0,1
<i>Downstream activities</i>					
Fuel and energy-related emissions not included in Scope 1 and 2		3 730	10,4	not reported	
Downstream transportation and distribution		80	0,2	not reported	
<b>Subtotal</b>		<b>5 365</b>	<b>14,95</b>	2 954,2	10,0
<b>Total*</b>		<b>35 936</b>	<b>100</b>	29 599,5	100

\* Errors due to rounding.

Through our ongoing commitment and implementation of resource-efficient technology, we have successfully controlled our GHG emissions and carbon footprint over the past year.

### Specific sustainability focus areas

#### Energy consumption

In our South African operations, we only use electricity generated by the national energy provider Eskom, similarly so in Botswana and Kenya. It is, however,

important to our guests that we ensure security of supply, and therefore all hotels have backup diesel generators installed for use during power outages.

The majority of our consumption is as a result of water heating, air-conditioning, lighting and laundry operations, with the total energy consumption for the period of 30,1 million kWh. This contributes towards 82,4% of our carbon footprint and remained a key focus area as a result.

By implementing a sustainable energy management programme at each of our hotels, we were able to continue our focus on operational and technical efficiencies. In our South African operations, our absolute energy consumption increased as a result of us opening our two new hotels; however, comparative consumption per room night sold is 2,4% less than last year and is 34% less in total when compared to our 2010 baseline.

Our electricity consumption per occupied room and the resultant per room cost thereof were as follows:

Brand	kWh per occupied room (2015/16)	kWh per occupied room (2014/15)	Cost per occupied room (2015/16)	Cost per occupied room (2014/15)	kWh per available room (2015/16)	kWh per available room (2014/15)	Cost per available room (2015/16)	Cost per available room (2014/15)
Courtyard	<b>27,5</b>	28,4	<b>R42,79</b>	R42,94	<b>15,6</b>	15,9	<b>R24,28</b>	R24,50
City Lodge	<b>19,0</b>	19,0	<b>R24,35</b>	R22,35	<b>12,7</b>	13,0	<b>R16,26</b>	R15,26
Town Lodge	<b>17,7</b>	17,5	<b>R25,77</b>	R23,82	<b>10,2</b>	10,4	<b>R15,01</b>	R14,17
Road Lodge	<b>12,9</b>	13,3	<b>R21,15</b>	R18,80	<b>9,4</b>	9,5	<b>R15,37</b>	R13,52

### Water consumption

Reducing water consumption is a joint effort between our hotels and their guests and staff. In designing our hotels, we have reduced the number of rooms with baths in our newer and refurbished City Lodge Hotels to approximately 60%, installed low-flow shower heads and taps and looked at other ways to reduce overall water consumption. A pilot project is currently under way where a grey water recycling plant has been installed to treat water expelled from our laundry, which is then used for irrigation purposes. Not only

is this good for the planet, but as the cost of potable water increases, the savings achieved will contribute to the financial sustainability of the group.

Our guests are encouraged to play their part in saving water by reusing their towels and linen, choosing to shower instead of bath and flushing wisely using the dual-flush toilet systems. Reducing the volume of laundry on a daily basis has a direct impact on the volume of water consumed, and is currently an area of focus in reducing consumption.

All water for supplying guest rooms and for use in the laundries and kitchens is drawn from municipal supply, with the exception of our Kenyan hotels, where the majority of water is supplied from boreholes. In isolated instances in South Africa, borehole water is used to supplement municipal supply for garden watering purposes.

Total water consumption for the period was 693 565 kilolitres ("kℓ"). This represents an increase of 302 kilolitres (0,4%) when compared to the prior period.

Brand	kℓ per occupied room (2015/16)	kℓ per occupied room (2014/15)	Cost per occupied room (2015/16)	Cost per occupied room (2014/15)	kℓ per available room (2015/16)	kℓ per available room (2014/15)	Cost per available room (2015/16)	Cost per available room (2014/15)
Courtyard	<b>0,78</b>	0,75	<b>R16,94</b>	R16,11	<b>0,44</b>	0,42	<b>R9,61</b>	R9,83
City Lodge	<b>0,39</b>	0,43	<b>R8,34</b>	R7,13	<b>0,26</b>	0,29	<b>R5,57</b>	R4,87
Town Lodge	<b>0,41</b>	0,38	<b>R11,01</b>	R7,32	<b>0,24</b>	0,23	<b>R6,41</b>	R4,36
Road Lodge	<b>0,34</b>	0,34	<b>R6,07</b>	R4,95	<b>0,25</b>	0,25	<b>R4,41</b>	R3,56

In addition to conserving water, we have a responsibility to manage the quality of water discharged by reducing the consumption and/or controlling the discharge of materials and products that may contaminate water. We achieve this through the use of biodegradable chemicals and products, the installation of grease traps and making use of salt water chlorinators to maintain hygiene in our pools.

#### Waste and recycling

While the volume of solid waste generated by the group is relatively low given our selected service product offering, we do leverage opportunities which exist to recycle paper, glass, plastics, aluminium and steel cans, and printer cartridges. Hotels in the City Lodge Hotel brand ensure the sorting of waste on premises and the subsequent recycling thereof, with limited waste to landfill being generated. Various recycling options are currently in operation at our other hotels. We continue to work on cost-effective solutions to reduce waste to landfill within our remaining hotels.

#### Our goals for the year ahead

In the year ahead we aim to maintain the reduction of energy consumption on a per-room-sold basis. Through our water-saving initiatives we will endeavour to reduce our water consumption on a per-room-sold basis and continue to investigate options around grey water reuse. We will aim to reduce our total

waste to landfill. We will continue to investigate the viability of renewable technologies in the form of photovoltaic solutions for use in selected hotels.



#### TO MAINTAIN AND IMPLEMENT AN INNOVATIVE TECHNOLOGY PLATFORM

The hospitality sector has seen a shift in the technology landscape over the past few years, which has seen an evolution of how guests interact with and experience our hotels. Our group information technology (“IT”) function is responsible for and has completed a number of initiatives which will contribute to the overall experience of our guests and staff.

#### Property Management System (“PMS”) and Central Reservation System (“CRS”)

City Lodge’s very own PMS (namely Lodgix) was successfully deployed during the first half of the year, across all properties in South Africa and Botswana. We continue to evaluate the needs of our guests and hotel staff, as well as the changing legislative and tourism environment within South Africa. With Lodgix being our very own bespoke PMS, we will continue to invest where necessary and adapt to these needs in a timely manner.

Our related CRS (namely Loconn) was also deployed and has successfully integrated with a variety of external channels, thereby bypassing the intermediaries used in the past by City Lodge (and most hotel groups).

The year ahead will see further investment into our CRS to integrate additional channels.

With our investment into these systems, City Lodge has reduced our ongoing operating expenses for licensing and transaction fees – a first in South African hospitality.

#### New Loyalty Rewards system

We understand that our regular guests enjoy being rewarded for their continued loyalty and in response have developed and deployed a bespoke loyalty system, which is integrated into the abovementioned PMS. This has facilitated the creation of an individual profile for each guest and member of the Lodger and Corporate Club, thereby eliminating duplicate data and allowing for better control of our guest information. This centralisation of data assists us in aligning with the proposed requirements of the Protection of Personal Information (“POPI”) Act and the Immigration Act.

#### Enhancement of our internal IT continuity solution

Life does not always go as planned; however, being prepared for the curved balls does minimise their impact. With our various stakeholders in mind, we further enhance our preparedness for an extended IT disaster, to reduce the impact on our business should our primary data centre become unavailable. Regardless of the fact

that our data is housed at a world-class tier 4 data centre and that a disruption to this facility and our IT equipment is unlikely, we have further invested resources into an offsite disaster recovery facility to ensure continued service to our guests and hotels. The group IT function has successfully implemented and tested the new enhanced solution, and will continue to assess the preparedness of the solution against different scenarios.

### Support of the African expansion programme

As we continue to grow on the African continent, it is vital to deploy the correct infrastructure, to be able to offer our guests and hotels in the various countries a consistent level of service and experience. The group IT function has been working closely with the development team to ensure consistency in IT services at these new properties.



### TO CONTINUE EMBEDDING OUR REFRESHED BRANDS AND REALISE GROWING BENEFITS FROM A CHANNEL MARKETING STRATEGY

As a starting point, we as a group go to great lengths to establish what we should be focusing on.

This has led us to move towards a “focused services” model from a “selected services” model. As part of our move to focused services, our research has also shown that

there is a need for us to redefine our brands even more, so that existing and prospective guests can find it even easier to choose the appropriate brand to meet their budget and their travel needs.

Being a focused services specialist, we are developing brand differentiators with a big emphasis on guest experience and benefits. In effect, we are becoming an experienced aggregator and enabler.

Forming an important part of our recent sales and marketing strategy has been a brand tracking exercise involving a sample base of 400 respondents in the LSM 8 to 10 bracket who made at least six hotel usage trips within a 12-month period. The sample demographic represented a variety of ages, genders and races.

Brand awareness findings have shown that there is improving top-of-mind, spontaneous and prompted awareness of our Courtyard Hotel, City Lodge Hotel, Town Lodge and Road Lodge brands. City Lodge Hotel and Road Lodge advertising campaigns over the past year have resulted in very healthy recall levels. We will be using these findings to deepen the understanding and usage of our different brands across the one to four-star markets.

Brand usage and experience studies have shown us that our three-star City Lodge Hotel brand is competing strongly with four and five-star brands due to some

“trading down” occurring in the market. These studies have also shown that there is a need for the two-star Town Lodge brand to be strengthened.

Encouragingly, branding power investigations have indicated that our group’s score improved by around 10% between 2015 and 2016. This has occurred among both users and non-users of our hotels. However, there is still work to be done among non-users in differentiating our brands, especially at point of decision – such as booking channels and intermediaries.

Importantly, each of our brands has its own strong image associations such as for our Courtyard Hotels “warm, personal touch”, City Lodge Hotels are associated with “guest comfort”, Town Lodges represent “efficient and friendly staff” and our Road Lodges are seen as “clean and well maintained”.

Our aim is to continue to emphasise developing our brands so that they can entrench themselves as leaders in their individual categories and confidently answer the question “why choose City Lodge Hotel Group”.

### Helping guests to make the decision to “choose City Lodge Hotel Group”

Across our brands, we have been busy doing our best to attract new guests, retain regular stayers and generally grow the

## OUR STRATEGY MEASURED CONTINUED

experiential footprint throughout our hotels. Our approach differs from brand to brand. For example, in our entry-level Road Lodge brand, our aim is to target new and first-time travellers through messaging that is aspirational. By doing this, we believe we can also gain regular guests who can aspire to use our other brands over time.

Ongoing engagement with our guests is critical as it enables us to remain true to our product promises and tune us into the changing requirements of the business and leisure travel market.

By adopting a channel strategy, we are able to focus on targeted brand messaging, marketing and sales channels. This has led us to grow the business we do with online travel agencies such as Expedia and Agoda.

When it comes to millennials, it is pleasing to note that we are resonating well with young people. The Sunday Times Generation Next independent research showed that we have some of the “coolest” brands in the hospitality sector. These findings were based on face-to-face interactions in six provinces. The survey included “tweens” (eight to 13), “teens” (14 to 18) and young adults (19 to 23) and featured urban and peri-urban youth.

Further evidence that our brands are being chosen for the right reasons comes from the KASI Star Brands 2016/17 survey which

was commissioned by the Daily Sun newspaper and carried out by research house Ask Afrika. Around 5 000 interviews were conducted, making it an authoritative survey. Our group came out tops in the hotel category, a very significant achievement as one of our ambitions is to grow our affinity within the township “first-time traveller” market around South Africa.

In this growing social media age, it is also gratifying to note that we continue to build our footprint across various channels, including Facebook and Twitter. Our digital agency constantly populates our platforms with information that is useful and interesting to our guests. Overall, engagement rates are positive and help us to maintain vibrant relationships with our social media followers.

The “live chat” facility on our website that we introduced last year has continued to pay dividends and has certainly proven itself as a highly interactive, effective and efficient customer service channel.

The bottom line is that all of our branding and communication activities have contributed strongly to assisting people to answer the question “why choose City Lodge Hotel Group” and translate this into booking action.

### More awards for our “trophy cabinet”

Winning awards is always great, but it is also an important vindication and endorsement of our strategic efforts. Receiving awards is also a ringing endorsement of our channel sales strategy.

Online agency Expedia named City Lodge Hotel OR Tambo International Airport as its top room night producer between April 2015 and March 2016. This cements the hotel’s position as one of Africa’s premier business and leisure travel gateway hotels. Similarly, online agency Hotels.com named Road Lodge Cape Town International Airport as its top room night producer (point of sale) over the same period.

Asian-focused online booking site Agoda awarded Gold Circle Awards to City Lodge Hotel OR Tambo International Airport and to City Lodge Hotel V&A Waterfront. The growing importance of the Asian travel market underlines the significance of these awards for two of our top hotels.

Most recently, we and our advertising agency TBWA Hunt Lascaris were presented with a Silver Lion at the 2016 staging of the annual Cannes Lions creativity celebration. This was for the brand differentiator “a room for everyone” print campaign that was mainly used in the travel media. At the 2015 Creative Circle Awards here in South Africa, this campaign also won a local award.



## GOVERNANCE REPORT

### STATEMENT OF COMPLIANCE

Good corporate governance is crucial to sustainability and serves as the foundation upon which the City Lodge Hotel Group conducts its business. As the focal point of the group's corporate governance system, the board is ultimately accountable and responsible for the performance and affairs of the company, and at all times remains committed to conducting business in a responsible, ethical and transparent manner.

The board accordingly takes guidance from the principles advocated in the King Report on Corporate Governance 2009 ("King III"), the JSE Listings Requirements ("Listings Requirements"), the Companies Act, 71 of 2008 ("the Act") and the International Integrated Reporting Framework, and is satisfied that the company has, for the year under review, complied with the mandatory governance principles contained in the Listings Requirements and applied the recommendations in King III.

Details of the group's application of King III are available on the company's website, [www.clhg.com](http://www.clhg.com). Where a principle has not been applied, this has been stated and explained.

### GOVERNANCE STRUCTURE AND DEVELOPMENTS

Governance processes are continually reviewed to ensure they are appropriately aligned with applicable legislation, regulation and best practice and to identify those areas which the company needs to address, further entrench or improve upon. Initiatives undertaken to enhance the governance framework during the reporting period included:

- A review of the board as well as the statutory committee charters.
- A review of the remuneration philosophy and policy to ensure that it remains relevant and aligned with best practice.
- Maintenance of the group's regulatory universe, including ongoing identification and analysis of applicable legislation, regulation, non-binding rules and best practice and increasing employee awareness in this regard.

Areas of focus for the year ahead:

- A review and update of the group's code of ethics to ensure that appropriate processes are in place to support its commitment to the highest standards of business integrity.
- Full review and gap analysis of King IV.
- Ongoing training on the impact of the Protection of Personal Information Act ("POPI Act") on the group and data processed by the business units, reviewing and where necessary

amending documentation to align with the POPI Act.

- Ongoing maintenance of regulatory universe, implementation of policies and procedures based on applicable laws and regulations, monitoring compliance and implementing appropriate training and awareness campaigns.

### THE BOARD

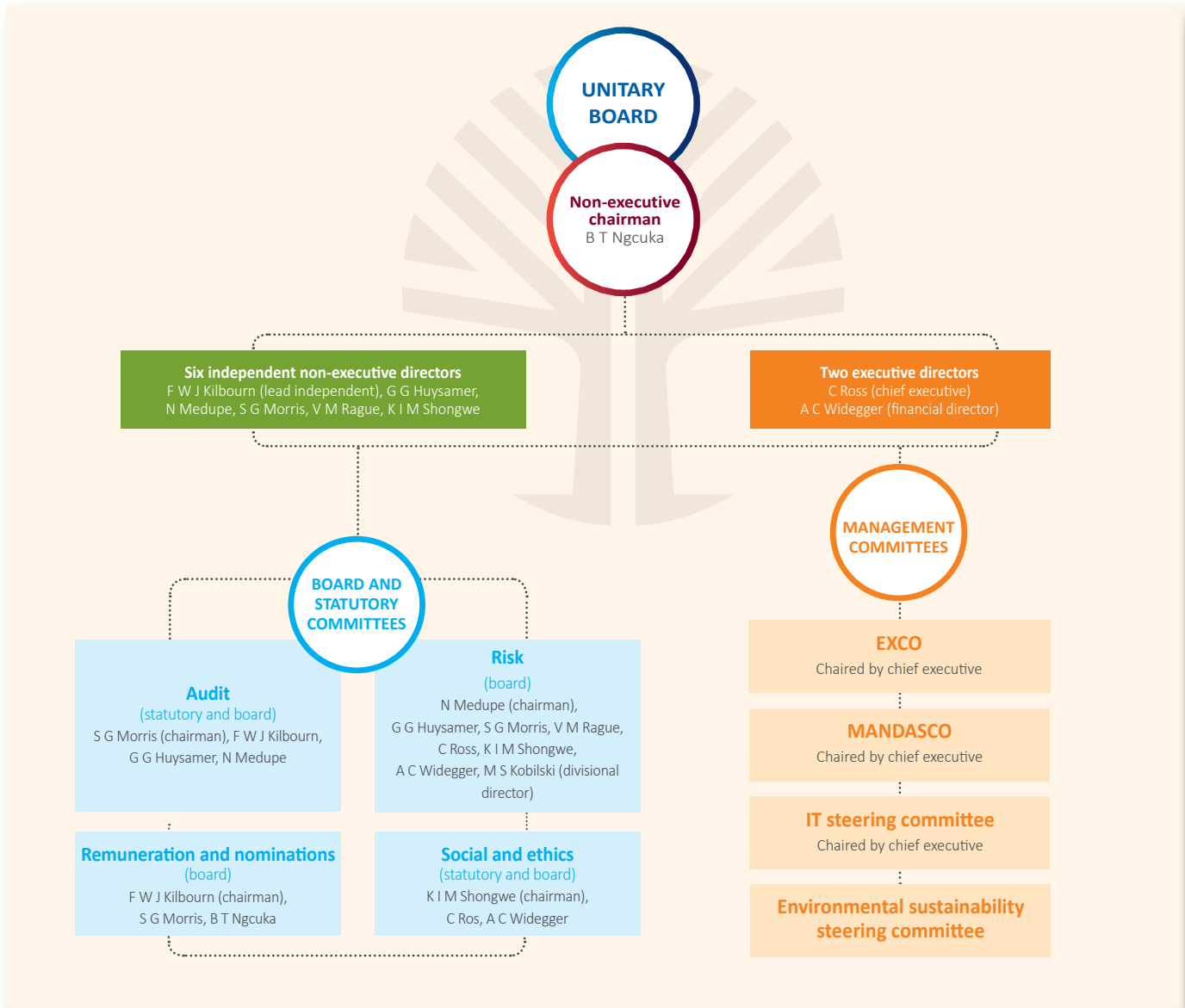
#### Charter

The board operates in accordance with a formally approved charter which ensures that board activities conform with sound corporate governance principles and comply with applicable legislation. All board members are aware of their collective, as well as individual, responsibilities. The charter supports a work plan against which agendas are prepared and which gives guidance as to the timelines against which the board is required to discharge its responsibilities.

Primary areas of focus include monitoring, reviewing and implementing matters of a strategic, financial, non-financial (including governance, compliance, ethics, sustainability and social responsibility) and an operational nature.

The board takes the lead in guiding the company's strategic direction, ethics, governance processes, operating, financial, as well as non-financial performance.

## CITY LODGE GOVERNANCE STRUCTURE



### Structure and composition

The unitary board comprises seven non-executive directors (“NED”) and two executive directors. Six of the seven non-executive directors are considered independent. The chief executive and financial director serve as the two executive directors on the board. Each of the NEDs are considered to be individuals of high calibre, with sound credibility, all of whom possess the requisite knowledge, skills and experience to bring judgement to bear, independent of management. Each of the directors participate actively in board deliberation and decisions.

### Changes to the board

Mr Vincent Rague was appointed to the board with effect from 1 January 2016. Mr Rague has in excess of 25 years advisory, banking, investment, project and corporate finance experience, which spans Africa, Latin America, Europe and Asia. He is the cofounder and a director of Catalyst Principal Partners, a Nairobi-based private equity firm and has previously occupied a number of leadership roles at the World Bank Group and the International Finance Corporation. Ms Wendy Tlou resigned from the board with effect from 11 May 2016. The board, having reassessed its composition following Ms Tlou’s resignation, with the assistance of the remuneration and nominations committee (“Remcom”), embarked on a process of identifying an additional member.

Ms Sizakele Marutlulle has been appointed to the board with effect from 1 October 2016. Ms Marutlulle has in excess of 20 years experience in brand communication and business leadership and has experience across various sectors including financial services, tourism, FMCG and the automotive and airline industries. She has served in key executive roles including Deputy Managing Director at HerdBouys McCann, Chief Operating Officer at South African Tourism and Chief Marketing Officer at Absa/Barclays Africa. Previous directorships include Rhodes Food Group Proprietary Limited, Association of the Communication Agencies, Apex panel and Lewis Proprietary Limited. She currently serves on the board of the Automotive Association of South Africa.

### Appointment, retirement and rotation

Procedures for appointments to the board are formal and transparent and a matter for the board as a whole, assisted where appropriate by Remcom. All potential board appointees are subject to a fit and proper test, in accordance with the JSE Listings Requirements, and all appointments are subject to shareholder approval.

Directors do not have a fixed term of appointment. In accordance with the company’s memorandum of incorporation (“Moi”), at least one-third of the NEDs

retire by rotation at the company’s annual general meeting. The directors so retiring may, if eligible, offer themselves for re-election.

Newly appointed directors retire at the first annual general meeting following their appointment and make themselves available for re-election by shareholders. Brief curricula vitae of the directors retiring by rotation and offering themselves for re-election are set out below, as well as on pages 34 and 35.

The retirement age for an NED is 70, subject to review at the discretion of the board, and 65 for an executive director.

### Director independence

The board annually reviews the independence of the NEDs, particularly long-serving directors. Particular attention is paid to the directors’ interest and/or involvement with other companies, number of other directorships, relationships with, inter alia, suppliers and competitors and interests in material contracts with the company, as well as any other factors which could influence his/her ability to act independently.

At its most recent assessment, the board concluded that all of the NEDs, save for the chairman of the board, are independent and that, notwithstanding their length of service, Messrs Kilbourn and Morris,

Dr Shongwe and Mrs Medupe continue to contribute to board deliberations in a manner that is objective, meaningful and unbiased.

#### **Board leadership**

Responsibility for running the board and for running the company's business are two critical functions. The role of the chairman is distinct from that of the chief executive. Separation of these roles ensures a clear division of responsibilities, which is necessary to ensure a balance of power and authority, so that no one individual has unfettered powers of decision-making.

#### **Chairman of the board and lead independent director ("LID")**

The chairman of the board assumes responsibility for setting the ethical tone for the company, ensuring the integrity and effectiveness of the board's governance processes, acting as the link between the board and management and providing leadership and vision in a manner that will serve to enhance

shareholder value and ensure the long-term sustainability of the company.

By virtue of his substantial interest in one of the company's BEE shareholders, Mr Bulelani Ngcuka is not considered independent. The board has, in line with the recommendations in King III and the JSE Listings Requirements, appointed an LID to provide leadership and advice to the board in instances when the chairman has a conflict of interest.

The chairman and LID are elected annually. Messrs Ngcuka and Kilbourn have respectively been re-elected as chairman and LID for the ensuing year.

#### **Chief executive**

The chief executive assumes responsibility for the day-to-day management of the company's affairs and is accountable to the board for the implementation of the board approved strategies, objectives and decisions within the framework of the delegated authorities, values and policies of the company.

#### **Board meetings and procedures**

Meeting dates are established in advance in respect of each calendar year. The board works to a formal agenda prepared by the company secretary, in consultation with the chairman. Board packs containing the meeting agenda and relevant supporting documentation are circulated well enough in advance of each meeting to allow for adequate preparation.

Directors advise the chairman of the board or relevant board or statutory committee, as well as the company secretary, when they are not able to attend meetings together with the reason for their absence. Directors may, when they are unable to attend in person, participate via video and/or teleconferencing facilities and, where appropriate, make submissions on matters to be tabled for discussion, which submissions are recorded at the meeting.

Decisions taken between scheduled board meetings, as provided in the company's MoI, are tabled for noting at the subsequent board meeting.

Details of the type and number of meetings held during the year under review, as well as individual director attendance, are set out in the table below.

#### Board sub-committee and statutory committee and strategy session

	Board	Strategy session	Annual general meeting	Audit committee	Remuneration and nominations committee	Risk committee	Social and ethics committee
Number of meetings	4	1	1	3	3	3	2
G G Huysamer	4	1	1	3	–	3	–
F W J Kilbourn	4	1	1	3	3	1 <sup>#</sup>	–
N Medupe	4	1	1	3	–	3	–
B T Ngcuka	4	1	1	–	3	–	–
S G Morris	4	1	1	3	3	3	–
V M Rague	2 <sup>^</sup>	1	–	–	–	– <sup>æ</sup>	–
C Ross	4	1	1	3*	3*	3	2
K I M Shongwe	4	1	1	–	–	3	2
W M Tlou	1 <sup>»</sup>	»	Δ	–	–	1 <sup>Δ</sup>	–
A C Widegger	4	1	1	3*	–	3	2

\* By invitation.

– Not a member.

Δ Apologies.

<sup>^</sup> Appointed to the board with effect from 1 January 2016.

<sup>æ</sup> Appointed to the risk committee with effect from 1 July 2016.

<sup>#</sup> Resigned from the risk committee with effect from 4 February 2016.

<sup>»</sup> Resigned from the board and the risk committee with effect from 11 May 2016.

#### Meeting dates

13 August 2015

12 November 2015

17 February 2016

11 May 2016

#### Strategy session date

11 May 2016

#### Annual general meeting date

12 November 2015

#### Induction and ongoing training and development

To assist them in the effective discharge of their responsibilities, directors are afforded the benefit of an induction programme aimed at broadening their understanding of the company and the business environment within which it operates. The company shares the responsibility of ensuring directors are equipped with the necessary skills to effectively carry out their duties and, when it is deemed

appropriate, directors can avail themselves of continuing professional development programmes.

#### Succession plan

The board:

- is responsible for its own succession planning; and
- annually reviews the succession plans in place for the executive directors and other senior executives.

### Information and communication

Directors have:

- access to the advice and services of the company secretary and may, where necessary, and in accordance with the board approved policy, seek independent professional advice at the company's expense; and
- unrestricted access to all company information and senior management to assist them in the discharge of their duties and responsibilities.

### Employment contracts

There are no service contracts in place with the NEDs. Executive directors are full-time salaried employees engaged on the company's standard terms and conditions of employment, which may be terminated on three months' notice. Termination of an executive director's employment contract will result in resignation from the board. Executive directors do not receive fees for their services as a director on the board or member of the board and statutory committees and, in accordance with King III, do not retire by rotation at the annual general meeting.

### Company strategy

Strategy, risk, performance and sustainability are inseparable. The board is therefore responsible for:

- formulating, developing and adopting the company's strategic plans and providing effective leadership and oversight of performance against targets and objectives;

- satisfying itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management;
- ensuring that the strategy will result in sustainable outcomes;
- considering sustainability as a business opportunity that guides strategic formulation; and
- monitoring management in implementing board plans and strategies.

The company's strategic objectives are assessed on an annual basis at the strategy session attended by both the board and the executive committee ("Exco"). Progress on the implementation and achievement thereof is reported on at each meeting of the board and Exco.

### Evaluation of the board, chairman, chief executive and company secretary

Board effectiveness is considered on an annual basis and entails completion of an online self-assessment. The results are considered and reported on at a subsequent meeting of the board. Appropriate measures are put in place where the results highlight areas requiring remedial action. Having considered the responses from the evaluation undertaken for the year ended 30 June 2016 the board is satisfied that it operates effectively and has discharged its responsibilities as required.

### The chairman

The performance and leadership of the chairman is assessed by the LID in an informal manner.

### The chief executive

The chairman of the board, in consultation with the NEDs, assesses the performance of the chief executive.

### The company secretary

The appointment and removal of the company secretary is a matter for the board as a whole.

Melanie van Heerden fulfils the role of group company secretary and legal adviser and, in addition to the responsibilities espoused by the Act, is responsible for guiding the board in discharging its responsibilities and administering the proceedings and affairs of the board, the company and, where appropriate, shareholders.

The board, while evaluating her performance, in compliance with the JSE Listings Requirements has considered and determined that Mrs van Heerden, who is a qualified and admitted attorney and has held the position of company secretary of a listed company for 12 years, has the competence, knowledge and experience to continue fulfilling the role of company secretary.

The board furthermore concluded that there is an arm's length relationship between itself and the group company secretary, taking into account that she is not a director serving on the board nor related to a director, and that as a result, the potential for conflict of interest is minimised.

## **BOARD, STATUTORY AND MANAGEMENT COMMITTEES**

The delegation of specific responsibilities to the board, statutory and management committees, each of which contribute to enhancing good corporate governance and improving internal controls, in no way relieves the board from discharging its duties and responsibilities. The board remains ultimately accountable for the performance and affairs of the company.

All board and statutory committees operate within approved terms of reference and an approved work plan, which provides members with an understanding of their roles as well as guidance as to when various responsibilities need to be discharged. Each of the committees' terms of reference were reviewed during the year to ensure that they are aligned with best practice, as well as internal, market, legislative and regulatory requirements.

Each of the board and statutory committees is chaired by an independent non-executive director who reports on the activities and recommendations made by

the committee at the board meeting immediately following the committee meeting. Minutes of all committee meetings, save for Remcom (which are available on request), are tabled for noting by the board.

The composition of the board and statutory committees is reviewed regularly to ensure that they each possess the appropriate balance of skills, knowledge and experience to assist the board in the effective discharge of its duties and responsibilities. The changes in committee composition effected during the year under review are reflected in the table detailing meeting attendance on page 65.

The effectiveness of each board and statutory committee is assessed by means of completing an online questionnaire. The results determine that each committee operates effectively and has discharged the responsibilities detailed in their respective terms of reference, at the intervals indicated in the annual work plan.

Any areas identified as requiring improvement are considered and the appropriate measures put in place.

The chairmen of the respective committees attend the annual general meeting in order that they may address any questions shareholders may raise with regard to matters falling within their respective committee mandates.

The chief executive chairs the three management committees established to assist him in the discharge of the responsibilities delegated to him by the board.

### **Audit committee**

The audit committee serves as the audit committee for the company as well as its subsidiaries and is constituted, in accordance with section 94 of the Act, as a statutory committee and a board committee in respect of all other duties assigned to it by the board.

### **Composition**

The committee comprises four independent non-executive directors, all of whom are financially literate and suitably skilled.

The chief executive, financial director, divisional director: financial, lead external audit partner and internal audit partner attend committee meetings by invitation and participate in discussions, but do not vote on any matters tabled for decision.

### **Role and responsibilities**

The committee's responsibilities include:

- safeguarding the company's assets, the operation of systems, control processes and the preparation of accurate financial reports and statements in compliance with relevant legal requirements and accounting standards;

- evaluating the adequacy and efficiency of internal control systems, accounting practices, information as well as the auditing thereof;
- consideration of the internal and external audit process and accounting principles and policies;
- ensuring the independence of the external and internal audit functions; and
- ensuring legislative and regulatory compliance and compliance with applicable codes.

#### Meetings and activities

Three meetings were held during the year under review to:

- examine and review reports to shareholders, including financial and sustainability reports;
- review the annual financial statements, interim reports, accompanying reports to shareholders, preliminary results announcement and any other announcement regarding the company's results or other financial information to be made public, prior to submission and approval by the board;
- review the internal control structures, including financial control, accounting systems and reporting;
- nominate the registered auditor, including the lead audit partner, review and approve the scope of work, the external audit fee and nature and extent of non-audit services;
- monitor and supervise the effectiveness of the internal audit function, including the performance of the internal audit partner;
- ensure that the roles and functions of external and internal audit are sufficiently clarified and coordinated;
- review and approve the annual internal audit plan and fee, and receive internal audit's written assessment of operational controls;
- receive reports and note the minutes from the risk committee with regard to the policy and plan for risk management and its implementation;
- oversee the implementation of the IT governance framework and ensure that it aligns with the company's performance and sustainability objectives;
- monitor and evaluate significant IT investments and expenditure;
- ensure that IT forms an integral part of the company's risk management process and ensure that information assets are managed effectively;
- oversee financial reporting risks, internal financial controls, fraud risks as they relate to financial reporting and IT risks as they relate to financial reporting;
- review the results of the self-assessment of the committee's performance;
- pre-approve and monitor the extent of non-audit services provided, which for the year under review represented 37% (2015: 38%) of the total audit fee paid;
- monitor legislative and regulatory compliance and compliance with governance codes and accounting standards (local and international);
- consider and approve the material issues facing the company, against which reporting will take place;
- approve the annual work plan against which the agenda for committee meetings will be prepared and monitoring progress against it; and
- consider and satisfy itself as to the independence of the external auditors and determining that the reporting accountant is accredited in accordance with the provisions of the Listings Requirements.

The external and internal auditors and representatives from senior management meet, at least annually, with the committee independently of one another to report back on and discuss any issues relevant to the audit process.

During its meeting with management, the committee, in addition to discussing issues relevant to the audit, considered the quality and effectiveness of the external audit function and concluded that it was satisfied with the performance and level of services rendered by the external auditor. The board has, on the recommendation of the audit committee, nominated KPMG Inc. for reappointment as the company's registered auditor for the ensuing year, with Mr Nico



Both as the engagement partner, at the forthcoming annual general meeting, it being noted that Mr Jacques Wessels having served five years rotates off as audit partner.

Both the external and internal audit partners attend the annual general meeting to field any questions raised by shareholders.

#### Confirmation of the expertise of the financial director

The audit committee, in consultation with the lead external audit partner and internal audit partner, has considered and confirmed the adequacy of the resources, expertise and experience of the finance function, in particular the expertise and experience of the company's financial director, Mr Andrew Widegger, in accordance with the JSE Listings Requirements.

#### Remuneration and nominations committee ("Remcom")

##### Composition

Three NEDs, two of whom are independent, serve on the committee. The LID chairs the committee. The chief executive attends meetings by invitation, but does not have a vote on matters to be decided upon nor does he participate in the decisions taken with regard to his remuneration.

The chairman of the board drives the nomination process and leads the nomination portion of meetings.

#### Role and responsibilities

Remcom is responsible for:

- ensuring that the directors and executives are fairly and responsibly remunerated and that the disclosure in respect thereof is accurate and transparent. Remcom does this by overseeing the implementation of remuneration policies in relation to NEDs', executive directors' and other senior executives' remuneration and reviewing the outcomes of the implementation of these policies and evaluating whether they promote the achievement of the company's strategic objectives and encourage individual performance. Where circumstances necessitate, Remcom will recommend the necessary improvements to the board;
- reviewing other remuneration-related matters, as the board may from time to time direct;
- considering the appropriate composition, in terms of size, mix, knowledge and experience for the board;
- ensuring there is a formal process in place for the appointment of directors;
- ensuring that induction and ongoing training and development of directors takes place; and
- ensuring that formal succession plans for the board, chief executive and senior executives are in place.

#### Meetings and activities

The committee met three times during the year under review to:

- review the Exco's remuneration packages in accordance with the company's approved remuneration policy, which included mandating a third-party service provider to conduct a benchmarking exercise and assist in the formulation of a recommendation to the board;
- determine, following review of associated performance criteria, the short-term and long-term incentive awards;
- consider the succession plans in place for the Exco as well as the company's organisational structure;
- consider the consolidated results of the annual self-assessment of the committee's performance;
- receive and approve the committee's annual work plan against which the agenda for committee meetings is prepared to ensure that the committee attends to all matters falling within its mandate;
- consider management's proposals regarding NEDs' fees, for recommendation to the board and subsequent approval by shareholders; and
- review the company's remuneration policy, for tabling at the annual general meeting of the company by way of a non-binding advisory vote.

The remuneration report details how the Remcom discharged its responsibilities.

### Risk committee

Risk appetite and tolerance are fundamental concepts setting the context for determining the group's strategic objectives and is informed by the group's risk culture and details the risks the group can or is prepared to take and which are to be avoided.

### Composition

The seven member committee comprises four independent non-executive directors, two executive directors and a divisional director.

Vincent Rague was appointed to the committee, effective 1 July 2016.

### Role and responsibilities

It is the committee's responsibility to ensure that an effective policy and plan for risk management that will enhance the company's ability to achieve its strategic objectives has been implemented.

Key focus areas include the management, rather than elimination, of risk, and ensuring comprehensive, timely and relevant disclosure with regard to risks facing the company. While the committee assumes responsibility for overseeing the risk management programme in place for the group, management is responsible for identifying and evaluating strategic and

operational risks and opportunities, putting the necessary mitigating strategies in place, allocating responsibility, formulation of a risk management plan and monitoring compliance against the plan.

Exco and the IT steering committee support the committee in discharging its responsibilities.

### Meetings and activities

Three meetings were convened during the year under review for the purpose of:

- performing the annual review of the group risk register, which includes:
  - considering whether any issues have come to light that impact the risk profile of the company which would result in an amendment of the risk register;
  - identifying opportunities where effective risk management can be turned into a competitive advantage;
  - where appropriate, the reranking of existing risks;
- confirming its satisfaction with the effectiveness of the risk management system and processes in place and that the risks facing the company are being addressed appropriately;
- receiving the chief executive's report on the status with regard to the company's key risks;
- considering the governance, legal and compliance reports, incorporating calls to the business abuse alertline, at intervals where the social and ethics committee does not sit;

- considering uninsured and uninsurable risks and adequacy of cover;
- considering the consolidated results of the annual self-assessment of the committee's performance; and
- approving the committee's annual work plan against which meeting agendas are prepared.

The material issues on pages 18 to 21 provide further detail on the material risks the company faces.

### Social and ethics committee ("SEC")

The SEC is constituted as a statutory committee for purposes of discharging the duties contemplated in Regulation 43 of the Act and as a board committee in respect of the responsibilities delegated to it by the board.

### Composition

The three member committee comprises the chairman, an independent non-executive director, and two executive directors. While the committee complies with the Act's requirements regarding its constitution, it does not meet the King III recommendation for a majority of the committee members to be non-executive directors. The committee, having applied its mind to the current membership, and considering that a significant portion of the matters falling within its mandate are operational, remains comfortable with the current membership and its ability to effectively discharge its responsibilities.

The group company secretary and representatives from the various functions responsible for managing the subject matter falling within the remit of the SEC assist the committee in the discharge of its responsibilities.

#### Role and responsibilities

The committee is responsible for ensuring the group is and remains a responsible corporate citizen and engages in sustainable business practices. Its role and responsibilities include:

- social and economic development;
- good corporate citizenship;
- issues around the environment, health and public safety, including the impact of the company's activities and services;
- consumer relationships;
- management of the company's ethics; and
- labour and employment, including transformation.

#### Meetings and activities

The committee met twice during the year under review to consider:

- Socio-economic development, including the company's standing in terms of:
  - **The 10 principles set out in the United Nations Global Compact Principles**

The group has adopted the 10 principles and monitors and reports on compliance with human rights, labour, anticorruption and

environmental matters despite not being a signatory to the compact.

- **Human rights**

The group remains committed to protecting and upholding human rights as far as it is able to exercise control over such. It subscribes to and supports "the Code", a compact between members of the international tourism industry that deals with the awareness of its staff with regard to issues and circumstances prevalent in the practices of human trafficking and child sex tourism.

City Lodge is not complicit in human rights abuses. It does not vet its suppliers in this regard on the basis that it does not believe doing so is necessary in the context of its operations and profile of suppliers.

- **Freedom of association**

The group recognises the right to freedom of association as well as the right to collective bargaining and continues to recognise and bargain with the trade union, SACCWU. All staff (up to supervisory level) in the deemed "bargaining unit" may belong to the union from a bargaining perspective. While any other level of staff member may belong to the

union, they are not covered by any bargaining gains made by the union.

- **Forced or compulsory labour**

The group supports the elimination of all forms of forced or compulsory labour and has no exposure to such practices. Suppliers are not vetted in this regard as the group is of the opinion that this is not necessary in the context of its operations and the profile of its suppliers.

- **Abolition of child labour**

The group demonstrates its support for the abolition of child labour by ensuring that no minors are employed. It is a condition of employment that all employees provide proof of age upon commencement of employment.

- **The Organisation for Economic Co-operation and Development's recommendations regarding corruption.**

- Activities associated with good corporate citizenship including the promotion of equality, prevention of unfair discrimination, reduction of corruption, contribution towards community development in the areas within which the company operates and record of sponsorship, donations and charitable giving.

In this regard it is to be noted that:

- no judgments, penalties and/or fines were recorded and/or levied against the company or its directors for failure to comply with any legislative or regulatory requirement; and
- no requests for information under the Promotion of Access to Information Act were received during the year under review.

For details on sponsorships, donations and charitable giving refer to page 55.

The company operates a 24-hour business abuse alertline which is independently managed by Whistle Blowers Proprietary Limited. The alertline affords all stakeholders the opportunity to anonymously report perceived cases of unethical or corrupt behaviour. All reports to the hotline are actively investigated and, where appropriate, action is taken.

Twelve calls were logged during the year under review, all of which were investigated. The majority of the calls were found to be internal grievances and were dealt with in accordance with the company's internal grievance procedure.

- The group's labour and employment practices, including its standing in terms of the International Labour Organisation Protocol on decent work and working conditions, its employment relationships and contribution toward employee educational development.
- Progress made with regard to transformation, taking the Employment Equity and Broad-Based Black Economic Empowerment Acts into account.
- The group's compliance with applicable legislation, regulation and codes of good practice.
- Environmental sustainability practices, in particular three of the UN Global Compact Principles relating to supporting a precautionary approach to environmental challenges, supporting greater environmentally friendly technologies.
- Consumer relationships, including advertising and public relations and stakeholder engagement, it being specifically noted that no complaints have been lodged with the Advertising Standards Authority for the year under review.

The report detailing how the committee has discharged its responsibilities in this regard appears on page 89.

### **Executive committee ("Exco")**

The 10 member Exco is the most senior executive decision-making body within the group. It assists the chief executive in discharging the obligations delegated to him by the board by:

- implementing strategy
- overseeing and managing the company's operations as well as operational and financial performance against set objectives;
- competitor activity;
- developing and making recommendations to the board with regard to the company's strategy and key policies, including the implementation and progress towards the achievement thereof;
- providing effective leadership to the company's employees;
- developing and presenting budgets and financial reports for subsequent submission to the board; and
- developing, implementing and monitoring governance, compliance, sustainability, risk management, internal control processes and ethics.

Exco met on four occasions during the year. Following the resignation of Gary Bisset, Lindiwe Sangweni-Siddo was appointed to Exco with effect from 16 September 2015. The appointment of Melanie van Heerden and Ryan Ruthven, effective 1 July 2016, means that Exco now comprises 12 members.

### Management development and succession committee (“MANDASCO”)

MANDASCO comprises seven members, all of whom are Exco members, and is responsible for ensuring that:

- effective management development practices are in place and that they are aligned with the group’s business needs and human capital requirements;
- the company is able to meet its employment equity and transformation objectives through the attraction and retention of the appropriate level of talent; and
- an adequate succession pool and talent pipeline is maintained.

Four meetings were convened during the year under review for purposes of discharging its responsibilities in relation to:

- maintaining an adequate succession pool and talent development plan through:
  - the identification of suitable candidates to populate the respective succession pools and for participation in the accelerated development and deployment programme (“ADDP”);
  - the compilation, execution and monitoring of individual development plans for succession pool and ADDP members to enable them to reach their full potential and develop the requisite skills and expertise necessary to suitably qualify them for the position for which they are being developed; and

- the deployment of succession pool and ADDP members to fill positions for which they have been developed, as and when they become available;
- transformation initiatives, specifically the achievement of the targeted employment equity levels, by identifying individuals for participation in the succession pools and ADDP, and monitoring the progress of existing candidates.

The various programmes in place saw the following appointments being made during the year under review:

- General manager: one succession pool candidate and two ADDP candidates;
- Assistant general manager: five succession pool candidates and two ADDP candidates, an increase from the prior year.

### IT steering committee (“ITSC”)

IT governance is integrated into the business and is an important enabler both in the enhancement and advancement of the company’s objectives and position as a leader in its field.

Ultimate responsibility for IT governance and ensuring that IT is aligned with and supports the company in the achievement of its goals rests with the board. The audit committee assists the board in the discharge of its responsibilities in this regard. Responsibility for development and implementation of frameworks and

processes to ensure appropriate IT governance within the group has been delegated to the ITSC.

### Composition

The ITSC operates within approved terms of reference incorporating an IT governance framework, which details how current and future use of IT is directed and controlled within the company. Representatives from the various functions within the company that have an impact on and/or are impacted by IT serve on the nine member committee.

In addition to assuming responsibility for consolidating feedback relating to the performance of IT within the company, so that reactive or proactive steps may be taken to ensure that the company derives the maximum value from IT, while at the same time managing its risks, the ITSC is responsible for:

- ensuring the organisational structures, relationships, frameworks and processes relating to IT are in place;
- ensuring that IT is aligned with the company’s business strategy;
- delivering value to the business by optimising expenses and improving the value of IT, which in turn translates into:
  - competitive advantage;
  - customer satisfaction;
  - employee productivity; and
  - enhanced profitability;
- IT resource management;

- management-related risks and addressing the safeguarding of IT assets, emergency response, disaster recovery and business continuity; and
- IT performance management.

Meetings are structured around the responsibilities falling within the remit of the ITSC and report backs are provided to the Exco, the audit committee as well as the board.

The five meetings held during the year focused on:

- ensuring that the company's IT initiatives and proposed projects assist the company in the achievement of its strategic and business processes;
- monitoring and evaluating significant IT investments in ongoing operational activities and projects;
- implementing processes that ensure that information assets are managed effectively;
- monitoring and measuring IT performance; and
- overseeing the process around the development and implementation of the bespoke hotel management system, Lodgix.

Following the promotion of Ryan Ruthven to divisional director: IT on 1 July 2016, all matters previously dealt with by the ITSC will now be covered on the Exco agenda and the ITSC has therefore been dissolved.

Further details on the committee's achievements can be found on pages 58 and 59.

The board confirms that IT governance is being addressed appropriately and is suitably aligned to the achievement of the company's objectives.

### INTERNAL AUDIT FUNCTION

KPMG Services Proprietary Limited performs the company's internal audit function. Despite being administratively accountable to the divisional director: financial, internal audit has unrestricted access to the chief executive, the financial director, as well as the chairman of the audit committee.

Reports, presented at each audit committee meeting, are prepared in accordance with a defined set of audit criteria which highlight audit area ratings per hotel and summarise internal audit activities. Corrective action is taken where significant internal control weaknesses are identified and follow-up audits may be conducted if deemed necessary.

Based on the results of the 17 internal audit reviews completed during the financial year ended 30 June 2016, which yielded an overall average level of compliance with the key controls tested of 84% (2015: 87%), the internal audit function and the audit committee concluded that the overall internal control effectiveness is good.

The audit committee reviews the effectiveness of the internal audit function to ensure that adequate, objective internal audit assurance standards and procedures exist and annually approves the internal audit plan and fee for the ensuing year. Special assignments, including but not limited to risk-based reviews, are undertaken where mandated by the audit committee. Two such reviews were undertaken and completed during the year under review. The first covered enterprise risk management assurance assistance, including combined assurance, and culminated in the development of a new more user-friendly risk reporting tool which ranks risk at both an inherent and residual exposure level and reflects perceived control effectiveness and risk tolerance limits.

The second covered a review of the IT disaster recovery plan, the results of which will only be available in the new financial year.

The audit committee upon assessing the independence of the internal audit function has concluded that, notwithstanding KPMG acting as internal and external auditors to the company and taking the ratio of fees between non-audit services (including internal audit fee) and audit services into account, it is satisfied that the independence of the function has not been compromised.

## **DEALING IN SECURITIES AND INSIDER TRADING**

Directors and the group company secretary must, as provided in the JSE Listings Requirements and the board-approved policy on dealing in company securities, obtain prior written clearance from the chairman of the board before dealing in City Lodge shares during an open period. The chairman of the board requires prior written clearance from any other designated director.

All dealings in securities are effected through the office of the company secretary who assumes responsibility for the enforcement of the policy, maintains a record of requests for dealing and clearances which, with regard to directors' dealings, is tabled at each meeting of the board, and arranges for the publication of the relevant announcement via the company's sponsor on the JSE's Securities Exchange News Service.

Directors, the company secretary and senior employees are prohibited from dealing in the company's securities during closed periods as defined by the Listings Requirements and at any time when those persons possess inside information.

## **CONFLICTS OF INTEREST AND OTHER DIRECTORSHIPS**

Directors declare their interests in contracts entered into or to be entered into, in compliance with the provisions of the Act, and provide details of other

directorships annually, by written declaration, and quarterly at each board meeting.

Directors must recuse themselves from deliberations on those matters where they are, or may potentially be, conflicted after they have provided any material information relating to the matter or known to them or if requested to make any observations or pertinent insights relating to the matter, by the other directors.

Executive directors may, with the chairman's permission, having due regard to whether the appointment may conflict with the business of the company and/or have a negative impact on the director's ability to effectively meet his/her responsibilities, accept external board appointments.

NEDs are required to engage with the chairman with regard to their external appointments in order to ensure that, notwithstanding additional external board appointments, he/she will continue to be able to devote sufficient time to the company.

The chairman of the board is satisfied that the NEDs have devoted the requisite amount of time to discharge their responsibilities to the company and that no director has a material interest in any contract entered into by the company.

Exco also subscribes to the practice of disclosing interests in other companies, board memberships and interests in contracts at the beginning of each Exco meeting in addition to making an annual written declaration in this regard.

## **STAKEHOLDER ENGAGEMENT**

The company acknowledges the importance of acting with integrity towards its various stakeholders, details of which are provided on page 12, and is committed to providing timely, transparent, consistent, relevant and credible information.

The board, as ultimate custodian of stakeholder relations, has delegated responsibility for proactively dealing with the group's various stakeholders to the executive and divisional directors, company secretary, hotels and outsourced public relations function.

## **LITIGATION**

The company is, in the ordinary course of business, subject to legal proceedings, which for a number of reasons cannot be reliably predicted.

The company is not and has not during the year under review, been involved in any legal or arbitration proceedings that will or may have a material effect on the operations or financial position of the company, nor are there any such known proceedings pending.

## INTRODUCTION

This report details City Lodge’s philosophy, principles and approach with regard to remuneration, specifically highlighting remuneration applicable to executive directors (“ED”), the executive committee (“Exco”) and NEDs, as well as its implementation during the year.

## REMUNERATION GOVERNANCE

The Remcom is responsible for overseeing the governance of remuneration matters. It is specifically responsible for ensuring that the company remunerates its executive directors and senior executives fairly and responsibly, and that the remuneration policies in place serve the company’s long-term interests. In discharging its responsibility Remcom reviews the remuneration policy and its implementation on an annual basis.

Remcom considers management’s recommendations and in turn makes recommendations to the board on the fees payable to the NEDs, which recommendation is subject to shareholder approval.

Specifics with regard to the composition, role, responsibilities and activities of the committee and remuneration policy are set out on pages 69 and 70.

## REMUNERATION POLICY

The remuneration policy, which is to be read in conjunction with the employee’s letter of appointment, employee handbook containing the company’s code of conduct, applicable employment legislation and the rules of the short-term and long-term incentive schemes, will be tabled to shareholders for a non-binding advisory vote at the annual general meeting scheduled to take place on 10 November 2016.

### Reward philosophy and strategy statement

City Lodge’s policy is to pay a market rate comparable to similar roles within the market and aims to set its guaranteed pay at the upper quartile in respect of Exco members, and between the mean and upper quartile within a normal distribution range of the relevant industry (hotels and hospitality) in respect of the remaining employees.

City Lodge is committed to developing, implementing and upholding total reward strategies and practices which:

- are consistent with, and aligned to the vision, mission, values and business objectives of the company;
- pursue the best interests of the company, its shareholders, and its internal and external stakeholder base;

- offer an appropriate mix of fixed remuneration and variable remuneration, which includes short-term and long-term incentives;
- are fair, equitable and justifiable;
- are market related;
- are driven by, and show a commitment to, rewarding performance, integrity and quality innovation;
- offer competitive benefits; and
- articulate a distinctive value proposition for current and prospective employees.

### Total reward strategy and remuneration mix

City Lodge’s total reward strategy is aimed at:

- providing an integrated approach for reward management that effectively attracts, motivates, engages and retains the talent required to achieve the desired business results;
- aligning reward practices with business strategy through a process of analysis, thereby ensuring that the company’s reward practices serve the business objectives; and
- adhering to legal, ethical and best practice standards, and reflecting good corporate governance and citizenship by complying with and exceeding industry and statutory minimum standards.



## Remuneration structure

The various components of remuneration applicable to the group are as follows:

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
<b>Fixed</b>					
Total guaranteed pay (monthly salary, retirement funding, medical aid, death and disability cover)	The basis of the company's ability to attract and retain the required skills. Reflects the individual's role and position.	1 August to 31 July	Reviewed annually, having regard to the approved increase mandate, benchmark data, where applicable, macro-economic factors, affordability and performance.	Payment takes place monthly and comprises a mix of cash salary as well as compulsory and discretionary benefits.	Employees below manager level*/*** General managers* Senior and head office management* Exco ED
<b>Variable</b>					
Short-term incentive: Performance appraisal linked ("PAL") bonus	Drive a "pay for performance" culture and reward the achievement of business objectives.	Bi-annually, 1 July to 31 December and 1 January to 30 June.	To create a performance culture and reward employees for achieving strong annual results when compared against predetermined targets.	Cash settlement capped at a percentage of GP depending on individual's role. The standard target payout level is generally expressed as a percentage of salary and then moderated by the performance score.	Assistant general managers General managers Senior and head office management

\* 13th cheque over and above base pay and benefits.

\*\*\* Employees share ownership opportunities exist through the 10th Anniversary Employees' Share Trust and Injabulo Staff Trusts, subject to qualification criteria being met.

## REMUNERATION REPORT CONTINUED

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
<b>Variable</b> (continued)					
Short-term incentive: Executive committee performance management scheme ("ECPMS")	Drive a "pay for performance" culture and reward the achievement of business objectives.	Financial measure: 1 July to 31 December and 1 January to 30 June Non-financial measure: 1 July to 30 June	Financial targets (65% weighting) are measured bi-annually with reference to the group average achieved for PAL. Non-financial measures (35% weighting) comprise individual key performance areas ("KPAs") which in turn have reference to the group's strategic objectives.  Targets for measuring the achievement of the non-financial performance criteria are individually set and are determined in advance of the commencement of an incentive period, in consultation with the chief executive.  A point scale of 0 to 7 points per KPA is utilised to measure achievement against each set and agreed KPA.  Below target threshold: 0 points Target threshold: 1 point On-target: 5 points Stretch target: 7 points	Financial measure: February and August  Non-financial measure: August	Exco

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
<b>Variable</b> (continued)  Short-term incentive: Executive director incentive scheme ("EDIS")	Drive a "pay for performance" culture and reward the achievement of business objectives.	Annually: 1 July to 30 June	<p>Financial drivers (65% weighting) comprise the weighting assigned to the group pool drivers, namely normalised group EBITDA (70%) and normalised fully diluted HEPS (30%), with the percentage target performance scale reflecting a bonus rating of 75% if the percentage target achieved is 85% for EBITDA and 90% for HEPS.</p> <p>The percentage threshold performance scale will reflect a bonus rating of 100% if the percentage target achieved is 100% for both EBITDA and HEPS.</p> <p>The percentage stretch performance scale will reflect a bonus rating of:</p> <ul style="list-style-type: none"> <li>■ 175% if the percentage target achieved is 110% for EBITDA and 115% for HEPS; and</li> <li>■ 250% if the percentage target achieved is 115% for EBITDA and 130% for HEPS.</li> </ul>	August	ED**

\*\* EDs are the exception as their STI is paid annually.

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
<b>Variable</b> (continued) Short-term incentive: Executive director incentive scheme ("EDIS")			<p>Non-financial measures (35% weighting) include, but are not limited to, the achievement of, alternatively progress made, towards the achievement of, strategic objectives, group performance against peers/competitors, increase in profit, completing projects within budget and/or prior to deadline and other key performance drivers of the business, eg ROE.</p> <p>Scale used in evaluating achievement:</p> <ul style="list-style-type: none"> <li>■ Threshold target percentage achieved = 80% of each driver</li> <li>■ On-target percentage achieved = 100% of each driver</li> <li>■ Stretch target percentage achieved = 120% of each driver</li> </ul>		

Element of pay type	Purpose	Performance period	Performance measures	Settlement	Application
<b>Variable (continued)</b> Long-term incentive	Align interests with shareholders.	Annual awards with three-year vesting periods and subject to vesting conditions being met.		Settlement takes place as directed by participant.	General managers Senior and head office management Exco ED

#### Bonus tables

The bonus achievable for each of the STI schemes is reflected in the tables below:

#### Bonus achievable percentage – PAL

Scale (total PAL score of 100%)	Assistant GMs – bonus % – half-yearly annual salary	GMs – bonus % – half-yearly annual salary	Head office management – half-yearly bonus % annual salary
65% – 69%	2,50	5,00	Group average up to a maximum of 40
70% – 74%	5,00	10,00	
75% – 79%	8,75	17,50	
80% – 84%	12,50	25,00	
85% – 89%	16,25	32,50	
90% – 95%+	20,00	40,00	

**Bonus achievable – ECPMS**

Overall PAL scale	Bonus % a half-annual	Exco – bonus %
65% – 68%	10%	Financial element (65% of TCOE): measured bi-annually with reference to PAL group average Non-financial element (35% of TCOE): measured annually Total STI capped at 50%
69% – 72%	12,50%	
73% – 76%	16,25%	
77% – 80%	24,50%	
+80%	32,5%	

The PAL bonus achievable maximum of 65% of half-year total cost of employment (“TCOE”), capped at 50%.

Table explanation:

- If the group achieves an average PAL score below 65% then the payout percentage is 0% of 50% of TGP.
- If the group achieves an average 65% to 68% PAL score for the relevant six-month period then the payout percentage is 10% of 50% of total guaranteed package (“TGP”).
- If the group achieves an average 69% to 72% PAL score for the relevant six-month period then the payout percentage is 12,5% of 50% of TGP.
- If the group achieves an average 73% to 76% PAL score for the relevant six-month period then the payout percentage is 16,25% of 50% of TGP.
- If the group achieves an average 77% to 80% PAL score for the relevant six-month period then the payout percentage is 24,5% of 50% of TGP.
- If the group achieves an average 80% PAL score, or greater, for the relevant six-month period then the payout percentage is 32,5% of 50% of TGP.

**Bonus achievable – EDIS**

Financial element (65% of TCOE) achievement of HEPS/EBITDA

Non-financial element (35% of TCOE) comprises strategic objectives and other key performance drivers

Bonus capped at 120% of total GP.

## Long-term incentive (“LTI”)

Each of the LTI plans in place are governed by their own set of rules, as approved by shareholders and in line with the Listings Requirements.

	Share Appreciation Rights Scheme (“SARS”)	Restricted Share Plan (“RSP”)
<b>Description</b>	Participants receive a conditional right to receive shares in the company, equal to the difference between the exercise price and the grant price multiplied by the number of SAR awards exercised.	Participants will receive a full share and become a shareholder on the award date, but subject to forfeiture in the event that the employee leaves the employment of the company within a specified period. These shares entitle participants to share in dividends and to exercise voting rights.
<b>Purpose</b>	To attract, retain and incentivise employees.	To attract, retain and incentivise employees. To provide selected employees with the opportunity of receiving shares in the company. The RSP was initially used as a retention mechanism or as a tool to attract prospective employees, but is now being used as a tool to incentivise and retain employees.
<b>Eligibility</b>	Executive directors Divisional directors Senior management	Executive directors Divisional directors Senior management Head office management General managers
<b>Company limit</b>	The aggregate number of shares which may be allocated under the SAR, DBP and RSP at any time may not exceed 2 997 074 shares. This limit excludes shares purchased in the market and shares forfeited.	
<b>Individual limit</b>	The maximum number of shares which may be allocated to any one individual in respect of unvested SAR, DBP and RSP awards may not exceed 428 154 shares.	
<b>Settlement method</b>	The preference of the company is to settle all awards under the SAR, DBP and RSP from a market purchase of shares. However, the rules of the LTI plans do cater for the following: <ul style="list-style-type: none"> <li>■ Market purchase of shares.</li> <li>■ Issue/subscription of new shares.</li> </ul> The rules of the RSP have been drafted wider to also include the use of treasury shares as a settlement method. As a fall-back provision only, the employee may be paid cash in lieu of shares (SARS and DBP).	
<b>Termination of employment</b>	Participants terminating employment prior to the vesting date of a particular award will be classified as a good or bad leaver. Bad leavers will forfeit all awards on the date of termination of employment. In the case of good leavers, a pro rata portion of all unvested awards will vest on the date of termination of employment. The pro rata portion will reflect the number of months served since the date of grant and the extent to which the performance conditions (if any) have been met. The balance of the awards will lapse. In the case of the SAR, all vested awards should be exercised within six months from the date of termination of employment.	

## REMUNERATION REPORT CONTINUED

	Share Appreciation Rights Scheme ("SARS")	Restricted Share Plan ("RSP")
<b>Change of control</b>	<p>In the case of a change of control, a pro rata portion of all unvested awards will vest on the date of change of control. The pro rata portion will reflect the number of months served since the date of grant and the extent to which the performance conditions have been met.</p> <p>The portion that does not vest early will continue to be subject to the terms of the letter of grant unless these are no longer considered appropriate in which case Remcom shall make an adjustment to the number of awards.</p>	
<b>Variation in share capital</b>	<p>In the event of a variation in share capital, the participants will continue to participate in the various LTI plans. However, Remcom may, where the company's value has been materially affected, make an adjustment to the number of awards to give a participant an equivalent fair value of the equity capital as to which he/she would have been entitled prior to the event.</p>	
<b>Allocation methodology</b>	<p>Annual, subject to the discretion of Remcom.</p> <p>(SAR face value % of GP x GP)/ grant price.</p>	<p>Restricted shares – retention and attraction: ad hoc, as determined by Remcom.</p> <p>Bonus shares: annually subject to the discretion of Remcom and subject to the earning of a cash bonus as measured against the defined performance criteria of the STI.</p> <p>Value of bonus = bonus match % x total bonus.</p> <p>Bonus shares = (individual bonus/total bonus)/number of bonus shares acquired.</p>
<b>Grant price</b>	The volume weighted average share price for the 10 business days prior to the date of grant.	n/a
<b>Vesting period</b>	Three years	Three years
<b>Lapse period</b>	Seven years	n/a
<b>Performance conditions</b>	<p>Growth in normalised, fully diluted, headline earnings per share ("HEPS"). Two HEPS targets will be set:</p> <ul style="list-style-type: none"> <li>■ Threshold – consumer price index ("CPI") over the three-year performance period;</li> <li>■ Target – CPI + 2 percentage points per annum over the three-year performance period.</li> </ul> <p>25% will vest if threshold performance is achieved and 100% will vest if target performance is achieved. Linear vesting will occur between the threshold and the target.</p>	<p>The earning of an STI, which is subject to defined performance criteria, is the proxy for participation. No other performance conditions, save for continued employment, are imposed.</p>



### Executive Share Incentive Scheme (“ESIS”)

The company previously operated the ESIS in terms of which eligible employees were granted share options, without performance conditions. Allocations were subject to a two-year waiting period whereafter options could be exercised as follows:

- Year 2: 20%
- Year 3: 20%
- Year 4: 20%
- Year 5: 40%

The share options are subject to being exercised within 10 years of the grant date and continued employment, failing which the options lapse.

No further awards have been made subsequent to the replacement of the ESIS by the SAR Scheme and Deferred Bonus Plan (“DBP”) in 2007. Existing vested and unexercised options, however, remain in effect until they have been exercised or lapse. The last of the options are expected to be exercised in 2017, failing which they will lapse.

### Deferred Bonus Plan (“DBP”)

The DBP was adopted in 2007 to foster a culture of share ownership among the executive directors. It allows participants to use up to 50% of their after-tax bonus to acquire shares in the company which will be matched by the company after three years, on condition that the participant is still employed by the company and still holds shares. The DBP is no longer actively used post the introduction of bonus shares

under the RSP in 2013. The last of the matching shares were awarded to the executive directors in September 2015. Details can be found on page 124.

### Pay-for-performance

In alignment with a pay-for-performance culture, the company places a greater emphasis on variable pay for executive directors, which Remcom monitors on a continuous basis.

### Employee share ownership – City Lodge 10th Anniversary Employees’ Share Trust (“10th Anniversary Trust”) and Injabulo Staff Share Scheme (“Injabulo Trust”)

All employees who do not qualify for participation in the company’s existing LTI plans and who, at the time of distribution, have been in the full-time employ of the company for at least 12 months are eligible to participate in the 10th Anniversary and Injabulo Staff Trusts.

#### 10th Anniversary Trust

The 10th Anniversary Trust holds approximately 1,21% of the company’s issued share capital, which was acquired through an interest-free loan from the company, the details of which can be found in the directors’ report.

#### The Injabulo Trust

The Injabulo Trust was established with the implementation of the City Lodge black economic empowerment transaction whereby the Vuwa special-purpose vehicle (“SPV”) and the University of Johannesburg

School for Tourism and Hospitality (“the Hotel School”) together with the Staff Trust SPV acquired 15% of the company’s issued share capital. 5,89% accrues to the Staff Trust SPV, of which the Injabulo Trust is the sole shareholder. The note on page 119 provides more information in this regard.

Beneficiaries are entitled to the following, subject to the provisions of the respective trust deeds, including, inter alia, funding arrangements:

- a proportion of all dividends received by the 10th Anniversary Trust/Injabulo Trust; and
- a proportion of the growth in the value of the shares held, distributed in the form of shares.

No income and/or growth distributions will be made under the Injabulo Staff Scheme until the loan has been repaid in full.

### NON-EXECUTIVE DIRECTOR (“NED”) REMUNERATION

#### Appointment and term

The appointment of directors is a matter for the board as a whole, assisted where appropriate by Remcom, and subject at all times to the approval of shareholders. Board appointments are governed by the Act, JSE Listings Requirements and the company’s MoI which provide for at least one-third of the NEDs to retire by rotation at the company’s annual general meeting. The directors so retiring may, if eligible,

offer themselves for re-election. New directors hold office until the first annual general meeting following their appointment. They may offer themselves or re-election.

Termination of office may occur at retirement age, alternatively will occur if a director is prohibited by law from being a director, fails to be re-elected, is found to be guilty of misconduct or fails to attend meetings without good reason or poor performance.

NEDs are not subject to a fixed term of appointment nor do they participate in the company's STI and LTI.

#### **Fees and basis of remuneration**

Fees payable to the NEDs are reviewed annually and have no link to company performance.

The fee structure is as far as possible aligned with the market, taking cognisance of the size and market capitalisation of the various companies included in the sample, as well as macro-economic factors, CPI, the financial position of the company and additional responsibilities placed on board members by new legislation and corporate governance principles.

Both Remcom and the board review management's recommendations on fees for reasonableness, which are then

proposed for approval by shareholders at the annual general meeting.

The fee paid to the chairman of the board is inclusive of all board and committee attendances as well as other tasks undertaken on behalf of the group.

The fee structure, as approved by shareholders, remains in place for the financial year.

#### **Expenses**

Payment, alternatively reimbursement, for all travel, hotel and other expenses reasonably and necessarily incurred in the proper performance of their duties, subject to production of the appropriate supporting documentation is governed by a documented travel policy.

#### **IMPLEMENTATION**

##### **Fixed pay (total guaranteed package)**

The company appreciates that in order to attract, motivate, engage and retain the talent required to achieve its overall business objectives, it must offer market-related and competitive remuneration packages.

City Lodge follows a total cost-to-company approach to structure remuneration for Exco and certain specialist staff and a basic plus approach in the case of the remaining workforce.

Guaranteed pay is reviewed annually taking the approved increase mandate, macro-economic factors and performance into account. Mandated increases take effect on 1 August.

Exco members are formally graded using the 21st Century Pay Solutions Execu-measure system ("Execu-measure"), as well as in terms of the Patterson grading model in an effort to ensure effective benchmarking.

The annual review of Exco's fixed remuneration, which takes place between May and July of each year, is benchmarked to the market. In carrying out its mandate to promote fair and responsible remuneration, Remcom engaged the services of 21st Century Pay Solutions to benchmark and advise on the level of pay for Exco.

Remcom authorised Exco total cost of employment increases, effective 1 August 2016, of between 7% and 9%, which averaged out at 7,4%, as a result of higher increases being awarded to certain packages which were found to be lagging the market.

The board, on recommendation of Remcom, approved a general salary increase of 7%, with 7,28% being approved in respect of minimum wage earners.

### **Variable pay (short-term and long-term incentives, which promote a pay-for-performance culture)**

Short-term incentive (“STI”)

#### *PAL bonus*

Hotel performance averaged at 78,02% and 76,71% respectively for the two measurement periods, with a number of units achieving excellent results in excess of 90%.

This translated into a group average pay out of 19,66% and 17,64% of half-annual salary respectively.

#### *ECPMS*

Achievement of non-financial measures averaged at 18,87% of TCOE.

#### *EDIS*

Solid performance from the EDs yielded an average bonus percentage payable of 78% of TCOE for the year under review.

#### **Long-term incentive (“LTI”)**

##### *SAR Scheme*

Annual awards are made by having reference to the face value of the award, which is the product of a set multiple and the participant’s TCOE.

105 016 awards were granted to 11 participants during the year ended 30 June 2016.

#### *Performance conditions*

##### ■ *Threshold performance condition*

Average annual percentage growth in normalised fully diluted headline earnings per share (“HEPS”) (as reported in the published annual financial statements for the year ended 30 June 2015, being 759,9 cents) over a three-year period exceeds the average annual growth in the consumer price index (“CPI”) per annum over the same three-year period.

##### ■ *Target performance condition*

Average annual percentage growth in normalised fully diluted HEPS (as reported in the published annual financial statements for the year ended 30 June 2015, being 759,9 cents) over a three-year period exceeds the average annual growth in CPI + 2 percentage points per annum over the same three-year period.

#### *2013 SAR Award*

The performance conditions imposed for 2013 grant have been met and the awards have vested.

#### *RSP*

The RSP operates in conjunction with the STI. There are no performance criteria other than the earning of a cash bonus as measured against the defined performance criteria of the STI and continued employment with the company.

57 005 shares were allocated to 68 participants during the financial year.

Having considered the provisions of the Act with regard to the disclosure of the remuneration of directors and prescribed officers and the definition of prescribed officer, the board has concluded that Exco members are deemed prescribed officers and that the disclosure requirements around remuneration be observed.

Note 18 on pages 122 to 126 sets out further detail on executive director and senior executive remuneration including STI and awards made under the LTI.

#### **Employee share ownership – 10th Anniversary Share Trust**

912 employees received a total distribution of 25 shares and R2 330 cash, from the 10th Anniversary Trust during the reporting period (2014: 895 employees received a cash distribution amounting to R1 990).

## REMUNERATION REPORT CONTINUED

**NON-EXECUTIVE DIRECTORS (“NEDS”)**

The fees currently paid, as approved by shareholders at the annual general meeting held on 12 November 2015, together with the proposed fees for the 2016/2017 financial year, reflecting increases in fees payable ranging from 7% to 10%, are detailed hereunder.

	1 July 2016 per annum (R)	1 July 2015 per annum (R)
Chairman of the board	890 000	775 000
Services as lead independent director	286 000	215 000
Services as a director	220 000	165 750
Chairman of audit committee	155 500	135 000
– Other audit committee members	71 600	62 500
Chairman of remuneration committee	137 400	120 000
– Other remuneration committee members	61 500	53 700
Chairman of the risk committee	106 500	93 000
– Other risk committee members	48 100	42 000
Chairman of social and ethics committee	69 600	60 800
	<b>Per hour 1 890</b>	Per hour 1 650
Ad hoc/temporary committee	<b>capped at 37 485</b>	capped at 33 000

The board, having considered both the King III recommendation that NEDs’ fees comprise a base fee as well as an attendance fee, and attendance by the NEDs over the past year, has determined not to change the current policy with regard to NED fees. Accordingly it recommends that NEDs continue to be paid a fixed fee for their services on the board and committees and that the chairman of the board be paid an inclusive fee for his services.

**STATEMENT OF COMPLIANCE**

Remcom, having considered the principles and guidelines detailed in the remuneration policy, is satisfied that there has been no material deviation in the application of the policy during the year under review.

## SOCIAL AND ETHICS COMMITTEE REPORT

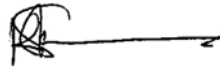
This report details how the social and ethics committee (“SEC”) has discharged its responsibilities as set out in section 72 of the Act and regulation 43 of the Companies Regulations 2011 issued in terms of the Act.

The SEC operates in accordance with a board-approved mandate and assists the board with the oversight of and reporting on the group’s social, ethical and sustainability practices. The board, in addition to its statutory responsibilities, assumes responsibility for ensuring that the company’s ethics are effectively managed and does so through exercising ethical leadership, integrity and judgement in directing the company. Employees are in turn expected to act in a manner that upholds the company’s values as contained in the City Lodge code of ethics, which addresses its relationships with various stakeholders. The code of conduct details the standards of behaviour expected of employees and is provided to employees at the commencement of their employment with the company.

Details on how the committee discharged its responsibilities can be found on pages 70 to 72 and pages 48 to 58 which covers progress in this regard.

No incidents or acts indicating a material breach in the required standard of ethical behaviour were reported during the period under review nor were any instances of substantive non-compliance with legislation and regulation or non-adherence to codes of best practice.

As such the SEC is of the view that the group is addressing the matters required to be monitored by it as detailed in its mandate in the appropriate manner and that it has effectively discharged its responsibilities.



**K I M Shongwe**

*Chairman of the social and ethics committee*

12 September 2016

# ANNUAL FINANCIAL STATEMENTS AUDITED

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These annual financial statements were published on 19 September 2016, were audited in compliance with the requirements of the Companies Act, 71 of 2008, and prepared under the supervision of Andrew Widegger CA(SA).

## DIRECTORS' RESPONSIBILITY STATEMENT

for the year ended 30 June 2016

The directors are responsible for the preparation and fair presentation of the group annual financial statements and annual financial statements of City Lodge Hotels Limited, comprising the statements of financial position at 30 June 2016 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and the accounting policies and notes to the financial statements, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the company and its subsidiaries' ability to continue as going concerns and there is no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group financial statements and financial statements are fairly presented in accordance with the applicable financial reporting framework.

### APPROVAL OF GROUP ANNUAL FINANCIAL STATEMENTS AND ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and annual financial statements were approved by the board of directors on 12 September 2016 and signed on its behalf by:



**C Ross**

*Chief executive  
Authorised director*

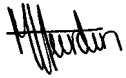


**A C Widegger**

*Financial director  
Authorised director*

## CERTIFICATE BY THE COMPANY SECRETARY

I, the undersigned, in my capacity as company secretary, hereby confirm to the best of my knowledge and belief that in terms of the Companies Act, 71 of 2008 (the “Companies Act”), for the financial year ended 30 June 2016, the company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Companies Act and that all such returns and notices appear to be true, correct and up to date.



**M C van Heerden**  
*Company secretary*

12 September 2016





# REPORT OF THE AUDIT COMMITTEE

for the year ended 30 June 2016

This report is provided by the audit committee in compliance with the Companies Act, 71 of 2008, and as recommended by King III.

## MEMBERSHIP

The committee comprises S G Morris (chairman), F W J Kilbourn, G G Huysamer and N Medupe, each of whom are independent non-executive directors and all of whom are financially literate and possess the necessary experience to contribute to the committee's deliberations. The committee met three times during the year with the chief executive, financial director, divisional director: financial and representatives from external audit and internal audit attending each meeting by invitation.

## MANDATE AND TERMS OF REFERENCE

Further information with regards to the audit committee, including its terms of reference and procedures, is described more fully in the governance report on pages 67 to 69 of this Integrated Report.

## STATUTORY DUTIES

The audit committee is satisfied that it considered, executed and discharged its responsibilities during the year in accordance with its mandate as described above.

The committee has considered the independence of the company's external auditors, KPMG Inc., and is satisfied that, for the year under review, the external auditors are independent. The committee adopts a work plan annually, in advance, in order to manage the discharge of its responsibilities under the Companies Act, King III, its own charter and the JSE Listings Requirements.

It approved the external auditors' fees for 2016 and the non-audit-related services performed by the external auditors during the year in accordance with the policy established and approved by the board.

The committee, excluding management invitees, met with both the external and internal auditors in order to discuss any issues relevant to the audit as well as to consider the resources and adequacy of the finance function, in particular the expertise and experience of the financial director. It concluded that both were adequate.

The committee, excluding both the external and internal auditors, met with management invitees in order to discuss any issues

relevant to the audit as well as to consider the quality and effectiveness of the external and internal audit process and concluded that both were adequate.

After assessing the requirements set out in the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors, and recommends the reappointment of the external auditors at the next annual general meeting.

## INTERNAL CONTROL

The audit committee has considered and approved the group's system of internal financial controls, based on the reports received from the external auditors and reports on hotel visits by the internal auditors, and confirms that no material breakdown of internal controls has taken place during the year.

## SOLVENCY AND LIQUIDITY

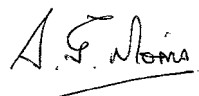
The committee is satisfied that the board has performed a solvency and liquidity test on the company and has concluded that the company satisfies the test after payment of the final dividend.

## INTEGRATED REPORTING

The Integrated Report comprises the:

- corporate report;
- governance report;
- social and ethics report;
- remuneration report;
- supplementary information to the Integrated Report; and
- the annual financial statements.

Following our review, and having regard to all material factors and risks that may impact the integrity of the Integrated Report, we accordingly recommend the Integrated Report and group annual financial statements of City Lodge Hotels Limited for the year ended 30 June 2016 to the board of directors for approval on 12 September 2016.



**S G Morris**

*Chairman of the audit committee*

12 September 2016

## DIRECTORS' REPORT

for the year ended 30 June 2016

### NATURE OF BUSINESS

The group owns and operates high-quality, affordable hotels targeted at the business community and leisure traveller.

### FINANCIAL RESULTS

Group profit before taxation for the year amounted to R452,1 million (2015: R456,3 million) while consolidated headline earnings totalled R315,1 million (862,5 cents per share, diluted) compared with headline earnings of R261,9 million (712,4 cents per share, diluted) for the previous year.

On a normalised basis, the consolidated headline earnings totalled R373,7 million (859,9 cents per share, diluted) compared with normalised headline earnings of R332,1 million (759,9 cents per share, diluted) for the previous year.

The company's interest in its subsidiaries' profit after taxation amounted to R55,2 million (2015: R49,6 million).

### INTEREST-BEARING BORROWINGS

During 2015 the group was granted an approved facility of R1 140 million to be utilised in funding the group's expansion with final repayment due five years after each initial drawdown. An amount of R20 million was utilised during the year, increasing the amount due to R270 million. Further details are included in note 11.

### DIVIDENDS

An interim dividend of 269,0 cents per share (2015: 230,0 cents) was declared on 18 February 2016, payable to ordinary shareholders registered on 7 March 2016. A final dividend of 248,0 cents per share (2015: 230,0 cents) was declared on 12 August 2016, payable to ordinary shareholders registered on 6 September 2016.

### SHARE CAPITAL

There was no change in the authorised share capital of the company during the year under review.

The issued share capital increased by 60 160 shares as reflected in note 9.

The shares issued during the year were to participants in the executive employee share incentive scheme, in terms of share options exercised, at prices of between R48,25 and R80,59 per share.

### The City Lodge 10th anniversary employees' share scheme

At a general meeting of shareholders on 18 December 1995, a share scheme was created for all employees other than those employees who participate in the City Lodge executive employee share incentive scheme. The company issued 1 000 000 new ordinary shares to the trust which were funded by means of an interest-free loan from the company for an amount of R34 million.

The following distributions were made in terms of the scheme:

Distribution date	Shares per eligible employee	Total shares distributed
December 1995	30	15 420
November 2005	55	38 445
November 2006	138	88 734
November 2007	214	137 388
November 2010	48	36 336
November 2012	80	72 960
November 2013	69	61 846
November 2015	25	22 800
		473 929

In applying IAS 39 – *Financial Instruments: recognition and measurement*, the carrying value of the loan in the company is R34,0 million (2015: R31,7 million) based on amortised cost.

### SUBSIDIARIES

Details relating to investments in subsidiaries are included in note 3.

### DIRECTORATE AND SECRETARY

The directors in office during the year under review were: G G Huysamer, F W J Kilbourn, N Medupe, S G Morris, B T Ngcuka (chairman), V M Rague (appointed 1 January 2016), C Ross (chief executive), K I M Shongwe, W M Tlou (resigned 11 May 2016) and A C Widegger (financial director).

In terms of the memorandum of incorporation, Ms N Medupe, Mr S G Morris, Mr B T Ngcuka and Mr V M Rague retire at the forthcoming annual general meeting but are eligible and available for re-election.

## DIRECTORS' INTEREST

The directors' individual interest in the ordinary share capital of the company at 30 June were as follows:

	Beneficial			
	Direct		Indirect	
	2016	2015	2016	2015
G G Huysamer	–	–	–	–
F W J Kilbourn	17 000	17 000	17 500	17 500
N Medupe	–	–	102 247*	102 247*
IN Matthews	–	416	–	–
S G Morris	–	–	–	–
B T Ngcuka	–	–	444 521*	444 521*
V M Rague	–	–	–	–
C Ross	158 095	163 987	11 084	10 000
K I M Shongwe	–	–	153 371*	153 371*
W Tlou	–#	–	–#	–
A C Widegger	166 729	152 493	–	–
<b>Total</b>	<b>341 824</b>	<b>333 896</b>	<b>728 723</b>	<b>727 639</b>

\* Mrs Medupe, Mr Ngcuka and Dr Shongwe's indirect shareholding reflects their proportionate share of the 2 556 185 shares owned by Vuwa Investments Proprietary Limited.

# Ms Tlou's direct and indirect shareholding as at the date of her resignation, 11 May 2016.

Directors were interested in 129 040 (2015: 129 040) options to acquire ordinary shares in the company at 30 June 2016 under the executive share incentive scheme. This scheme has been replaced by the share appreciation rights scheme, the deferred bonus plan and the restricted share plan. Details of options held by individual directors are included in note 18.

No material changes in directors' interests have taken place between the reporting date and the date of issue of this Integrated Report.

## GOING CONCERN

The directors consider that the company and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going-concern basis in preparing the group and company financial statements. The directors have satisfied themselves that the company and its subsidiaries are in a sound financial position and that they have access to sufficient cash and borrowing facilities to meet their foreseeable cash requirements.

## EVENTS AFTER THE REPORTING DATE

There are no material events after the reporting date.

## INDEPENDENT AUDITOR'S REPORT

to the shareholders of City Lodge Hotels Limited

### REPORT ON THE GROUP FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS

We have audited the group financial statements and the financial statements of City Lodge Hotels Limited, which comprise the statements of financial position at 30 June 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accounting policies and the notes to the financial statements, as set out on pages 97 to 148.

### DIRECTORS' RESPONSIBILITY FOR THE GROUP FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of City Lodge Hotels Limited at 30 June 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

### OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 30 June 2016, we have read the directors' report, the report of the audit committee and the certificate by the company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the Independent Regulatory Board for Auditors' rule published in Government Gazette number 39475, dated 4 December 2015, we report that KPMG Inc. has been the auditors of City Lodge Hotels Limited for 30 years.

### KPMG Inc.

*Registered auditor*



Per **J Wessels**

*Chartered Accountant (SA)*

*Registered auditor*

*Director*

12 September 2016

KPMG Crescent  
85 Empire Road  
Parktown  
Johannesburg

# ACCOUNTING POLICIES

for the year ended 30 June 2016

## REPORTING ENTITIES

City Lodge Hotels Limited (“the company”) is a company domiciled in South Africa. The group financial statements of the company as at and for the year ended 30 June 2016 comprise the company and its subsidiaries (together referred to as the group).

The group owns and operates high-quality, affordable hotels targeted at the business community and leisure traveller.

Where reference is made to “group”, it should be interpreted as company, where the context requires and unless otherwise stated.

## BASIS OF PREPARATION

### Functional and presentation currency

These financial statements are presented in Rand, which is the company’s functional and group’s presentation currency, rounded to the nearest thousand.

### Basis of measurement

These financial statements are prepared on the historical cost basis, except for derivative financial instruments carried at fair value and the defined-benefit plan measured at the fair value of plan assets less the present value of the defined-benefit obligation.

The preparation of financial statements in conformity with International Financial Reporting Standards (“IFRS”) requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, 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 (note 24).

### Statement of compliance

The group and company financial statements have been prepared in accordance with IFRS and its interpretations adopted by the International Accounting Standards Board, the Listings Requirements of JSE Limited, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa. These group and company financial statements were authorised for issue by the board of directors on 12 September 2016.

### SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out on the following pages have been applied consistently by all group entities to all periods presented in these financial statements.

### Basis of consolidation

The group accounts for business combinations using the acquisition method when control is transferred to the group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired and liabilities assumed. For a business combination achieved in stages, the pre-existing equity interest in the acquiree is measured at fair value at the acquisition date. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The group financial statements include the financial statements of the company and its subsidiaries.

Investments in subsidiaries are carried at cost less accumulated impairment adjustments in the company separate financial statements.

### Subsidiaries

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

## ACCOUNTING POLICIES CONTINUED

for the year ended 30 June 2016

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

### Goodwill

Goodwill represents the excess of the costs of acquisition over the group's interest in the fair value of the identifiable assets (including intangibles), liabilities and contingent liabilities of the acquired entity at the date of acquisition and if a business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree.

Goodwill is stated at cost less impairment losses and is reviewed for impairment on an annual basis. Any impairment identified is recognised immediately in profit or loss and is not reversed.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. Each of those CGUs is identified in accordance with the basis on which the businesses are managed and according to the differing risk and reward profiles.

### Foreign transactions and balances

The financial statements for each group company have been prepared on the basis that transactions in foreign currencies are recorded in their functional currency at the rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date with the resultant translation differences being credited or charged to profit or loss.

### Foreign subsidiaries – translation

One-off items in the statement of comprehensive income and cash flow statements of foreign subsidiaries expressed in currencies other than the SA Rand are translated to SA Rand at the rates of exchange prevailing on the day of the transaction. All other items are translated at average rates of exchange for the relevant reporting period. Assets and liabilities of these undertakings are translated at closing rates of exchange at each reporting date. All translation exchange differences arising on the retranslation of opening net assets together with differences between statement of comprehensive income translated at average and closing rates are recognised as a separate component of other comprehensive income. For these purposes net assets include loans between group companies that form part of the net investment, for which settlement is neither planned nor likely to

occur in the foreseeable future and is either denominated in the functional currency of the parent or the foreign entity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Structured entities

The group has established a number of structured entities for the purposes of the BEE transaction. The group does not have any direct or indirect shareholdings in these entities. The group has guaranteed the funding of the structured entities and as such is deemed to control these structured entities resulting in the incorporation of the structured entities into the company and group financial statements.

### Transactions eliminated on consolidation

Intragroup transactions and balances, and any unrealised income or expenses arising from intragroup transactions, are eliminated in preparing the group financial statements.

### Property, plant and equipment

#### Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Where significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Freehold land is stated at cost and is not depreciated. Freehold and leasehold buildings are stated at cost and depreciated over periods of up to 50 years as deemed appropriate to reduce carrying values to estimated residual values over their useful lives.

The group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when the cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced item is derecognised. All other costs are recognised in profit or loss as an expense as incurred.

Borrowing costs incurred on funds raised to erect hotel buildings (qualifying assets) are capitalised up to the date that the activities necessary to prepare the hotel for its intended use are substantially complete.

Government grants are recognised when there is reasonable assurance that they will be received and the group will comply with the conditions associated with the grant. Such grants are deducted from the cost of the asset.

Depreciation is charged to profit or loss to write off the cost of the asset to its estimated residual value on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Depreciation commences the month following acquisition. The estimated useful lives are currently as follows:

- Buildings 10 to 50 years
- Furniture and equipment Three to five years

Leasehold improvements are written off over the initial period of the lease.

The residual values, depreciation methods, and useful lives are reassessed annually.

Gains and losses arising on the disposal of property, plant and equipment are included in profit or loss.

## Leases

### Operating leases as lessee

Leases, where the lessor retains the risk and rewards of ownership of the underlying asset, are classified as operating leases.

Operating lease payments are expensed in profit or loss on a straight-line basis over the period of the leases. Other contingent operating lease payments are charged against profit or loss as they are incurred.

### Intangible assets

Internally developed trademarks are not recognised. Expenditure to enhance and maintain such trademarks is charged in full against profit or loss.

Expenditure on research activities is recognised in profit or loss as incurred.

Software development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, software development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives are as follows:

- Software development costs Five to 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## Impairment

### Non-derivative financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more loss events have had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and equity-accounted investees, the reversal is recognised in profit or loss.

**Non-financial assets**

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate or estimated using a price to earnings ratio that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Pre-opening expenses**

Pre-opening expenses of new hotels are charged directly against profit or loss as incurred.

**Inventories**

Inventory is stated at the lower of cost and net realisable value, on a first-in first-out basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

**Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current taxation comprises taxation payable calculated on the basis of the expected taxable income for the year, using the taxation rates enacted or substantively enacted at the reporting date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. 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. Deferred taxation is recognised in profit or loss except to the extent that it relates to a transaction that is recognised directly in equity or other comprehensive income, or a business combination that is an acquisition. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously recognised directly in equity or other comprehensive income.

Deferred taxation is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit;
- differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused taxation losses and deductible temporary differences can be utilised. Deferred taxation assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related taxation benefit will be realised.



Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Dividends withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012.

The company withholds dividends tax on behalf of its shareholders on dividends declared. Amounts withheld are not recognised as part of the company's tax charge, but rather as part of the dividend paid, recognised directly in equity.

## Financial instruments

### Measurement

Financial instruments are initially measured at fair value plus, for financial instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, these instruments are measured as set out below:

### Non-derivative financial assets

The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

### Investments

Investments that meet the criteria for classification as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses.

Financial assets designated as financial assets at fair value through profit or loss are carried at fair value with any gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed. Attributable transaction costs are recognised in profit or loss when incurred.

### Trade, loan and other receivables

Trade, loan and other receivables are measured at amortised cost, using the effective interest method, less impairment losses.

### Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost, using the effective interest method.

### Derecognition

Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. Financial liabilities are derecognised if the group's obligations expire or are discharged or cancelled.

### Non-derivative financial liabilities

The group initially recognises debt securities issued on the date that they are originated. All other financial liabilities (including liabilities designated as fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

Borrowings are measured at amortised cost using the effective interest method.

Any difference between proceeds (net of transaction costs) and the redemption value is recognised in profit or loss as interest expense over the period of the borrowings.

Trade and other payables are measured at amortised cost, using the effective interest method.

### Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Share capital and equity

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### Preference shares

Preference share capital is classified as a liability as it is redeemable on a specific date or at the option of the shareholders and as the dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

## ACCOUNTING POLICIES CONTINUED

for the year ended 30 June 2016

**Provisions**

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

**Revenue**

Revenue comprises revenue received from hotel accommodation, food and beverage sales, but excludes value added tax, and is recognised once the service is rendered.

Revenue is measured at the fair value of the consideration received or receivable, net of returns, allowances and trade discounts.

Revenue is recognised on the provision of accommodation and related services in the ordinary course of the group's activities when recovery of the consideration is probable, the associated costs can be estimated reliably, there is no continuing management involvement and the amount of revenue can be measured reliably.

For the customer loyalty programme, the fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits (Lodger-points) and the other components of the sale. The group supplies all of the awards, being accommodation itself. The amount allocated to the Lodger-points is estimated by reference to the fair value of the accommodation for which they could be redeemed, since the fair value of the Lodger-points themselves is not directly observable. The fair value of the accommodation is estimated taking into account the expected redemption rate and the timing of such expected redemptions. Such amount is deferred and revenue is recognised only when the Lodger-points are redeemed and the group has fulfilled its obligations to supply the accommodation or when it is no longer probable that the points under the programme will be redeemed. The amount of revenue recognised in those circumstances is based on the number of Lodger-points that have been redeemed in exchange for accommodation, relative to the total number of Lodger-points that is expected to be redeemed.

**Rental income**

Rental income from property leased out under operating leases is recognised on a straight-line basis over the term of the lease. The property leased is owner-occupied property.

**Financial income and expense**

Financial income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Financial expenses comprise interest expense on borrowings, dividends on preference shares classified as liabilities and unwinding of discounts on provisions. All borrowing costs, not directly attributable to the acquisition, construction or production of qualifying assets, are recognised in profit or loss using the effective interest method.

**Dividend income**

Dividend income is recognised in profit or loss on the date that the group's right to receive payment is established.

**Employee benefits****Short-term employee benefits**

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The liability for employee entitlements to salaries, bonuses and annual leave represent the amounts which the group has a present obligation to pay as a result of employees' services provided to the reporting date. The liability has been calculated at undiscounted amounts based on current salary rates.

**Retirement benefits****Defined-contribution plans**

Contributions to defined-contribution pension plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

**Defined-benefit plans and gratuity benefits**

The group's net obligation in respect of the defined-benefit pension plan and Kenyan gratuity benefit is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted in respect of the defined-benefit pension plan. The discount rate is the yield at the reporting date on the All Bond Index ("ALBI") that have maturity dates approximating to the terms of the group's obligations and are denominated in the same currency in which the benefits are expected to be paid in respect of the defined-benefit pension

plan. For the gratuity benefit the yield at the reporting date, on government bonds with a 10-year duration that have maturity dates approximating to the terms of the group's obligations and are denominated in the same currency in which the benefits are expected to be paid, are used. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined-benefit liability, which comprise actuarial gains and losses and in the case of the defined-benefit pension plan, the return on plan assets (excluding interest), are recognised immediately in OCI. The group determines the net interest expense (income) on the net defined-benefit/gratuity liability (asset) for the period by applying the discount rate used to measure the defined-benefit/gratuity obligation at the beginning of the annual period to the then net defined-benefit/gratuity liability (asset), taking into account any changes in the net defined-benefit/gratuity liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined-benefit/gratuity plans are recognised in profit or loss.

Where the calculation results in an asset for the group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan available to the employer.

### Share-based payment transactions

The share incentive schemes allow certain employees to acquire shares of the company. The fair value of rights granted are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the rights. The fair value of the rights granted is measured using the stated models, taking into account the terms and conditions upon which the rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of share rights that vest, except where forfeiture is due only to share prices not achieving the threshold for vesting.

Share-based payment arrangements in which the group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the group.

### Earnings per share

The group presents basic, diluted and normalised earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding, excluding shares held by the BEE structured entities, during the period.

Diluted EPS is determined by dividing profit for the year by the weighted average number of ordinary shares outstanding, excluding shares held by the BEE structured entities, plus all potential dilutive ordinary shares, which comprise share options granted to employees.

Normalised EPS is calculated by dividing profit for the period, excluding the effects of the BEE transactions or those of a non-recurring/core nature, by the weighted average number of ordinary shares outstanding during the period.

Normalised diluted EPS is determined by dividing profit for the year, excluding the effects of the BEE transactions or those of a non-recurring/core nature, by the weighted average number of ordinary shares outstanding, plus all potential dilutive ordinary shares, which comprise share options granted to employees.

Headline earnings per share is calculated in terms of circular 2/2015.

### Operating segments

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the group's other components. All operating segments' operating results are reviewed regularly by the chief operating decision-makers to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the chief operating decision-makers include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## STATEMENTS OF FINANCIAL POSITION

at 30 June 2016

R000	Note	Group		Company	
		2016	2015	2016	2015
<b>ASSETS</b>					
<b>Non-current assets</b>					
		<b>1 895 445</b>	1 777 574	<b>1 772 606</b>	1 696 208
Property, plant and equipment	1	<b>1 844 140</b>	1 740 251	<b>1 243 696</b>	1 182 611
Intangible assets and goodwill	2	<b>45 558</b>	32 578	<b>45 558</b>	32 578
Interest in subsidiaries	3			<b>449 352</b>	449 349
Loan receivable	4			<b>34 000</b>	31 670
Deferred taxation	5	<b>5 747</b>	4 745	<b>–</b>	–
<b>Current assets</b>					
		<b>306 648</b>	221 119	<b>160 456</b>	138 040
Inventories	6	<b>7 734</b>	7 122	<b>3 682</b>	3 405
Trade receivables	27.4	<b>97 408</b>	95 934	<b>89 389</b>	90 054
Other receivables	7	<b>35 948</b>	32 701	<b>38 735</b>	44 581
Taxation receivable		<b>4 389</b>	–	<b>–</b>	–
Other investments	8	<b>56 860</b>	–	<b>–</b>	–
Cash and cash equivalents		<b>104 309</b>	85 362	<b>28 650</b>	–
<b>Total assets</b>		<b>2 202 093</b>	1 998 693	<b>1 933 062</b>	1 834 248
<b>EQUITY</b>					
<b>Capital and reserves</b>					
		<b>871 828</b>	727 442	<b>609 007</b>	550 135
Share capital and premium	9	<b>167 958</b>	164 002	<b>167 958</b>	164 002
BEE investment and incentive scheme shares		<b>(524 228)</b>	(515 728)	<b>(505 550)</b>	(497 050)
Other reserves	10	<b>145 016</b>	108 051	<b>109 453</b>	106 581
Retained earnings		<b>1 083 082</b>	971 117	<b>837 146</b>	776 602
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
		<b>1 196 572</b>	1 148 410	<b>1 144 758</b>	1 114 012
Interest-bearing borrowings	11	<b>270 000</b>	250 000	<b>250 000</b>	250 000
BEE interest-bearing borrowings	12	<b>44 120</b>	44 120	<b>44 120</b>	44 120
BEE preference shares	13	<b>397 500</b>	412 100	<b>397 500</b>	412 100
BEE shareholder's loan	14	<b>37 893</b>	32 988	<b>37 893</b>	32 988
BEE B preference share dividend accrual	13	<b>200 171</b>	168 191	<b>200 171</b>	168 191
Other non-current liabilities	15	<b>102 203</b>	113 376	<b>92 909</b>	100 558
Deferred taxation	5	<b>144 685</b>	127 635	<b>122 165</b>	106 055
<b>Current liabilities</b>					
		<b>133 693</b>	122 841	<b>179 297</b>	170 101
Trade and other payables	16	<b>133 693</b>	109 474	<b>178 081</b>	148 973
Taxation payable		<b>–</b>	1 351	<b>1 216</b>	4 334
Bank overdraft		<b>–</b>	12 016	<b>–</b>	16 794
<b>Total liabilities</b>		<b>1 330 265</b>	1 271 251	<b>1 324 055</b>	1 284 113
<b>Total equity and liabilities</b>		<b>2 202 093</b>	1 998 693	<b>1 933 062</b>	1 834 248

## STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

R000	Note	Group		Company	
		2016	2015	2016	2015
<b>Revenue</b>		<b>1 493 163</b>	1 303 112	<b>1 343 506</b>	1 177 286
Administration and marketing costs		<b>(98 019)</b>	(99 191)	<b>(91 857)</b>	(93 195)
BEE transaction charges	17	<b>(858)</b>	(301)	<b>(858)</b>	(301)
Operating costs excluding depreciation		<b>(773 490)</b>	(664 075)	<b>(722 003)</b>	(629 441)
Depreciation and amortisation		<b>620 796</b>	539 545	<b>528 788</b>	454 349
		<b>(96 399)</b>	(86 380)	<b>(87 871)</b>	(78 359)
<b>Results from operating activities</b>	17	<b>524 397</b>	453 165	<b>440 917</b>	375 990
Interest income	19.1	<b>2 268</b>	4 751	<b>11 888</b>	15 134
Interest expense	19.2	<b>(74 523)</b>	(63 251)	<b>(74 523)</b>	(63 251)
Fair value gain on remeasurement of investment in joint venture	3	–	59 977	–	59 977
Share of profit from joint ventures – Courtyard Hotels		–	1 618	–	1 618
<b>Profit before taxation</b>		<b>452 142</b>	456 260	<b>378 282</b>	389 468
Taxation	20	<b>(136 854)</b>	(137 998)	<b>(114 234)</b>	(101 603)
<b>Profit for the year</b>		<b>315 288</b>	318 262	<b>264 048</b>	287 865
<b>Other comprehensive income</b>					
<i>Items that will never be reclassified to profit or loss</i>					
Defined-benefit plan remeasurements	24	<b>6 827</b>	(3 347)	<b>6 827</b>	(3 347)
Income tax on other comprehensive income		<b>(1 912)</b>	937	<b>(1 912)</b>	937
<i>Items that are or may be reclassified to profit or loss</i>					
Foreign currency translation differences		<b>34 093</b>	213		
Total comprehensive income for the year		<b>354 296</b>	316 065	<b>268 963</b>	285 455
<b>Earnings per share (cents)</b>					
– basic	21	<b>868,3</b>	878,5		
<b>Diluted earnings per share (cents)</b>					
– basic	21	<b>862,9</b>	865,9		

## STATEMENTS OF CASH FLOWS

for the year ended 30 June 2016

R000	Note	Group		Company	
		2016	2015	2016	2015
Cash generated by operations	26.1	654 621	529 774	577 272	455 010
Interest received		2 268	4 751	9 558	10 656
Interest paid		(37 593)	(33 119)	(37 593)	(33 119)
Taxation paid	26.2	(129 657)	(115 520)	(104 474)	(91 657)
Dividends paid	22	(184 316)	(154 196)	(184 497)	(154 407)
<b>Cash inflows from operating activities</b>		<b>305 323</b>	231 690	<b>260 266</b>	186 483
<b>Cash utilised in investing activities</b>		<b>(191 893)</b>	(267 047)	<b>(160 513)</b>	(223 597)
Investment to maintain operations	26.3	(81 963)	(119 430)	(80 203)	(117 768)
Investment to expand operations	26.4	(110 345)	(90 008)	(80 535)	(48 209)
Investments and loans	26.5	–	(58 527)	(3)	(58 538)
Proceeds on disposal of property, plant and equipment	26.3	415	918	228	918
<b>Cash (outflows)/inflows from financing activities</b>		<b>(40 659)</b>	40 145	<b>(54 309)</b>	40 145
Proceeds on issue of shares		3 956	5 747	3 956	5 747
Purchase of incentive scheme shares		(43 525)	(21 657)	(43 525)	(21 657)
Increase in interest-bearing borrowings		20 000	65 000	–	65 000
Redemption of BEE preference shares		(14 600)	(8 800)	(14 600)	(8 800)
Distribution by BEE structured entity		(140)	(145)	(140)	(145)
Settlement of retirement benefit obligation		(6 350)	–	–	–
Net increase in cash and cash equivalents		72 771	4 788	45 444	3 031
Cash and cash equivalents at beginning of year		73 346	67 916	(16 794)	(19 825)
Reclassification of cash and cash equivalents to other investments		(56 860)	–	–	–
Effect of movements in exchange rates on cash held		15 052	642	–	–
<b>Cash and cash equivalents at end of year</b>		<b>104 309</b>	73 346	<b>28 650</b>	(16 794)

## STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2016

R000	Note	Share capital and premium	BEE investment and incentive scheme shares	Other reserves	Retained earnings	Total
<b>Group</b>						
<b>Balance at 30 June 2014</b>		158 255	(526 822)	113 939	820 543	565 915
<b>Total comprehensive income for the year</b>		–	–	213	315 852	316 065
Profit for the year		–	–	–	318 262	318 262
<i>Other comprehensive income</i>						
Defined-benefit plan remeasurements, net of tax		–	–	–	(2 410)	(2 410)
Foreign currency translation differences		–	–	213	–	213
<b>Transactions with owners, recorded directly in equity</b>		5 747	11 094	(6 101)	(165 278)	(154 538)
Issue of new ordinary shares		9	5 747	–	–	5 747
Incentive scheme shares		–	11 094	(21 814)	(10 937)	(21 657)
Share compensation reserve		10	–	15 713	–	15 713
Dividends paid		22	–	–	(154 196)	(154 196)
Distribution by BEE structured entity		–	–	–	(145)	(145)
<b>Balance at 30 June 2015</b>		164 002	(515 728)	108 051	971 117	727 442
<b>Total comprehensive income for the year</b>		–	–	34 093	320 203	354 296
Profit for the year		–	–	–	315 288	315 288
<i>Other comprehensive income</i>						
Defined-benefit plan remeasurements, net of tax		–	–	–	4 915	4 915
Foreign currency translation differences		–	–	34 093	–	34 093
<b>Transactions with owners, recorded directly in equity</b>		3 956	(8 500)	2 872	(208 238)	(209 910)
Issue of new ordinary shares		9	3 956	–	–	3 956
Incentive scheme shares		–	(8 500)	(11 243)	(23 782)	(43 525)
Share compensation reserve		10	–	14 115	–	14 115
Dividends paid		22	–	–	(184 316)	(184 316)
Distribution by BEE structured entity		–	–	–	(140)	(140)
<b>Balance at 30 June 2016</b>		167 958	(524 228)	145 016	1 083 082	871 828

## STATEMENTS OF CHANGES IN EQUITY CONTINUED

for the year ended 30 June 2016

R000	Note	Share capital and premium	BEE investment and incentive scheme shares	Other reserves	Retained earnings	Total
<b>Company</b>						
<b>Balance at 30 June 2014</b>		158 255	(508 144)	112 682	656 636	419 429
<b>Total comprehensive income for the year</b>		–	–	–	285 455	285 455
Profit for the year		–	–	–	287 865	287 865
<i>Other comprehensive income</i>						
Defined-benefit plan remeasurements, net of tax		–	–	–	(2 410)	(2 410)
<b>Transactions with owners, recorded directly in equity</b>		5 747	11 094	(6 101)	(165 489)	(154 749)
Issue of new ordinary shares		9 5 747	–	–	–	5 747
Incentive scheme shares		–	11 094	(21 814)	(10 937)	(21 657)
Share compensation reserve		10 –	–	15 713	–	15 713
Dividends paid		22 –	–	–	(154 407)	(154 407)
Distribution by BEE structured entity		–	–	–	(145)	(145)
<b>Balance at 30 June 2015</b>		164 002	(497 050)	106 581	776 602	550 135
<b>Total comprehensive income for the year</b>		–	–	–	<b>268 963</b>	<b>268 963</b>
Profit for the year		–	–	–	<b>264 048</b>	<b>264 048</b>
<i>Other comprehensive income</i>						
Defined-benefit plan remeasurements, net of tax		–	–	–	<b>4 915</b>	<b>4 915</b>
<b>Transactions with owners, recorded directly in equity</b>		<b>3 956</b>	<b>(8 500)</b>	<b>2 872</b>	<b>(208 419)</b>	<b>(210 091)</b>
Issue of new ordinary shares		9 <b>3 956</b>	–	–	–	<b>3 956</b>
Incentive scheme shares		–	<b>(8 500)</b>	<b>(11 243)</b>	<b>(23 782)</b>	<b>(43 525)</b>
Share compensation reserve		10 –	–	<b>14 115</b>	–	<b>14 115</b>
Dividends paid		22 –	–	–	<b>(184 497)</b>	<b>(184 497)</b>
Distribution by BEE structured entity		–	–	–	<b>(140)</b>	<b>(140)</b>
<b>Balance at 30 June 2016</b>		<b>167 958</b>	<b>(505 550)</b>	<b>109 453</b>	<b>837 146</b>	<b>609 007</b>



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2016

R000	Group		Company	
	2016	2015	2016	2015
<b>1. PROPERTY, PLANT AND EQUIPMENT</b>				
At cost				
Land	295 764	295 764	1 178	1 178
Buildings	1 619 536	1 505 104	1 393 648	1 282 458
– freehold	1 279 550	1 219 454	1 053 662	996 808
– leasehold	339 986	285 650	339 986	285 650
Buildings under construction	81 525	52 386	1 719	15 991
Furniture and equipment	545 300	487 753	472 513	426 199
	<b>2 542 125</b>	2 341 007	<b>1 869 058</b>	1 725 826
Accumulated depreciation				
Buildings	330 180	286 951	308 186	268 788
– freehold	183 805	162 376	161 811	144 213
– leasehold	146 375	124 575	146 375	124 575
Furniture and equipment	367 805	313 805	317 176	274 427
	<b>697 985</b>	600 756	<b>625 362</b>	543 215
Carrying value				
Land	295 764	295 764	1 178	1 178
Buildings	1 289 356	1 218 153	1 085 462	1 013 670
– freehold	1 095 745	1 057 078	891 851	852 595
– leasehold	193 611	161 075	193 611	161 075
Buildings under construction	81 525	52 386	1 719	15 991
Furniture and equipment	177 495	173 948	155 337	151 772
	<b>1 844 140</b>	1 740 251	<b>1 243 696</b>	1 182 611

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Land	Buildings	Furniture and equipment	Total
<b>1. PROPERTY, PLANT AND EQUIPMENT</b> <i>continued</i>				
Movements for the year				
Group – carrying value				
Opening balance – 1 July 2014	292 733	1 014 134	150 559	1 457 426
Additions*	3 031	126 056	66 184	195 271
Acquisitions through business combinations	–	165 334	8 757	174 091
Disposals	–	–	(156)	(156)
Depreciation	–	(34 936)	(51 140)	(86 076)
Gain on foreign exchange movement	–	(49)	(256)	(305)
<b>Closing balance – 30 June 2015</b>	<b>295 764</b>	<b>1 270 539</b>	<b>173 948</b>	<b>1 740 251</b>
Additions*	–	<b>126 727</b>	<b>52 051</b>	<b>178 778</b>
Disposals	–	–	<b>(186)</b>	<b>(186)</b>
Depreciation	–	<b>(42 613)</b>	<b>(51 887)</b>	<b>(94 500)</b>
Gain on foreign exchange movement	–	<b>16 228</b>	<b>3 569</b>	<b>19 797</b>
<b>Closing balance – 30 June 2016</b>	<b>295 764</b>	<b>1 370 881</b>	<b>177 495</b>	<b>1 844 140</b>
Company – carrying value				
Opening balance – 1 July 2014	1 178	809 164	124 579	934 921
Additions*	–	87 062	64 748	151 810
Acquisitions through business combinations	–	165 334	8 757	174 091
Disposals	–	–	(156)	(156)
Depreciation	–	(31 899)	(46 156)	(78 055)
<b>Closing balance – 30 June 2015</b>	<b>1 178</b>	<b>1 029 661</b>	<b>151 772</b>	<b>1 182 611</b>
Additions*	–	<b>96 917</b>	<b>50 291</b>	<b>147 208</b>
Disposals	–	–	<b>(151)</b>	<b>(151)</b>
Depreciation	–	<b>(39 397)</b>	<b>(46 575)</b>	<b>(85 972)</b>
<b>Closing balance – 30 June 2016</b>	<b>1 178</b>	<b>1 087 181</b>	<b>155 337</b>	<b>1 243 696</b>

At 30 June 2016 properties with a carrying amount of R166,6 million (2015: R97,9 million) are subject to a registered bond to secure bank loans (refer to note 11).

A register of the land and buildings is available for inspection at the registered office of the company, a copy of which will be supplied to members of the public on request.

\* Interest was capitalised in additions to buildings during the current year (refer to note 19). No interest was capitalised during the prior year.

R000	Group		Company	
	2016	2015	2016	2015
<b>2. INTANGIBLE ASSETS AND GOODWILL</b>				
At cost				
Software development costs	<b>44 392</b>	29 513	<b>44 392</b>	29 513
Goodwill	<b>3 418</b>	3 418	<b>3 418</b>	3 418
	<b>47 810</b>	32 931	<b>47 810</b>	32 931
Accumulated amortisation and impairment				
Software development costs	<b>2 252</b>	353	<b>2 252</b>	353
Goodwill	<b>–</b>	–	<b>–</b>	–
	<b>2 252</b>	353	<b>2 252</b>	353
Carrying value				
Software development costs	<b>42 140</b>	29 160	<b>42 140</b>	29 160
Goodwill	<b>3 418</b>	3 418	<b>3 418</b>	3 418
	<b>45 558</b>	32 578	<b>45 558</b>	32 578

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Software development cost	Goodwill	Total
<b>2. INTANGIBLE ASSETS AND GOODWILL</b> <i>continued</i>			
Movements for the year			
Group – carrying value			
Opening balance – 1 July 2014	15 297	–	15 297
Additions	14 167	–	14 167
Acquisitions through business combinations	–	3 418	3 418
Amortisation	(304)	–	(304)
<b>Closing balance – 30 June 2015</b>	29 160	3 418	32 578
Additions	<b>14 879</b>	–	<b>14 879</b>
Amortisation	<b>(1 899)</b>	–	<b>(1 899)</b>
<b>Closing balance – 30 June 2016</b>	<b>42 140</b>	<b>3 418</b>	<b>45 558</b>
Company – carrying value			
Opening balance – 1 July 2014	15 297	–	15 297
Additions	14 167	–	14 167
Acquisitions through business combinations	–	3 418	3 418
Amortisation	(304)	–	(304)
<b>Closing balance – 30 June 2015</b>	29 160	3 418	32 578
Additions	<b>14 879</b>	–	<b>14 879</b>
Amortisation	<b>(1 899)</b>	–	<b>(1 899)</b>
<b>Closing balance – 30 June 2016</b>	<b>42 140</b>	<b>3 418</b>	<b>45 558</b>

For the purposes of impairment testing, goodwill has been allocated to the Courtyard Hotels acquired and assessed as a single cash-generating unit (“CGU”). The recoverable amount was estimated at R184,723 million based on the present value of future earnings using a price-earnings model.

A price to earnings ratio of 18,1, being the average over a five-year period, was applied to budgeted earnings. The key assumptions used in determining the budgeted earnings are average occupancy and room rate. Average occupancy is determined by assessing historic performance and current market trends, while room rates are in line with the group’s rate policy. No impairment loss was identified in the current year.

**SENSITIVITY ANALYSIS**

An analysis of the resultant effect on the value of the CGU for changes in the key valuation assumptions is presented below:

CGU value	Movement	Increase	Decrease
Budgeted earnings	1%	1 848	(1 848)
Price to earnings ratio	0,5 times	5 103	(5 103)

R000	Issued share capital	% held	Company	
			2016	2015
<b>3. INTEREST IN SUBSIDIARIES</b>				
<b>Shares at cost less accumulated impairment losses</b>				
Anchor Park Investments 105 Proprietary Limited	R100	70	*	*
Budget Hotels Proprietary Limited	R100	100	1 073	1 073
City Lodge Hotels (Africa) Proprietary Limited	R100	100	*	*
City Lodge Hotels (Botswana) Proprietary Limited	BWP1	100	*	*
CLHG Mozambique Lda <sup>■</sup>	MZN1 000 000	1	3	
CLHG Tanzania Limited <sup>■</sup>	TZS100 000 000	0,1	*	
Courtyard Management Company Proprietary Limited	R100	100	*	*
Fairview Hotel Limited, Kenya	KES2 600 000	100	383 465	383 465
Gallic Courtyard (Arcadia) Share Block Proprietary Limited	R1 518	100	1	1
Gallic Courtyard (Bruma Lake) Share Block Proprietary Limited	R2 584	100	3	3
Gallic Courtyard (Rosebank) Share Block Limited	R3 816	100	4	4
Gallic Courtyard (Sandown) Share Block Limited	R3 067	100	3	3
Newshelf 892 Proprietary Limited <sup>#</sup>	R100			
Newshelf 935 Proprietary Limited <sup>#</sup>	R100			
Property Lodging Investments Proprietary Limited	R100	100	2 000	2 000
Vuwa Hotels Proprietary Limited <sup>#</sup>	R100			
			<b>386 552</b>	386 549
<b>Loan</b>				
Property Lodging Investments Proprietary Limited			<b>62 800</b>	62 800
Interest in subsidiaries			<b>449 352</b>	449 349
The loan is unsecured, bears interest at 12% per annum (2015: 12%) and is repayable on demand on or before 31 July 2023. There is, however, no intention to request repayment during the next 12 months.				
<i>Amounts included in other receivables and payables</i>				
Amounts due by subsidiaries			<b>10 696</b>	14 234
Amounts due to subsidiaries			<b>(57 648)</b>	(30 963)
These amounts are unsecured, interest-free and repayable on demand.				

The company also has an indirect, 100% shareholding in City Lodge Holdings (Share Block) Proprietary Limited, City Lodge Hotels (Namibia) Proprietary Limited and City Lodge Hotels (Uganda) Limited.

\* Less than R1 000.

<sup>#</sup> City Lodge has guaranteed the funding of these BEE entities, resulting in their incorporation.

<sup>■</sup> The majority shareholder is City Lodge Hotels (Africa) Proprietary Limited.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Group		Company	
	2016	2015	2016	2015
<b>4. LOAN RECEIVABLE</b>				
City Lodge 10th anniversary employees' share trust			<b>34 000</b>	31 670
Balance at beginning of year			<b>31 670</b>	27 192
Notional credit to interest received in the current year			<b>2 330</b>	4 478

The City Lodge 10th anniversary employees' share trust loan is secured by the pledge of 526 549 (2015: 549 349) shares having a market value of R81 888 900 (2015: R76 354 018), is interest-free and is repayable upon demand by the company at any time after the expiry of 20 years from the date of adoption of the scheme, being 18 December 1995, or in the event of the share price falling below R34,00 per share. There is, however, no intention to request repayment during the next 12 months.

In line with the requirements of IFRS 10 *Consolidated Financial Statements*, the City Lodge 10th anniversary employees' share trust has been consolidated in the current and prior year.

The loan amount is measured at amortised cost. The future value and nominal recoverable amount of the loan is R34,0 million.

R000	Group	
	2016	2015
<b>5. DEFERRED TAXATION</b>		
<b>Movement in deferred taxation assets</b>		
Balance at beginning of year	<b>4 745</b>	3 639
Current year temporary differences – profit or loss	<b>881</b>	1 079
Foreign exchange movement	<b>121</b>	27
Balance at end of year	<b>5 747</b>	4 745
<b>Analysis of deferred taxation assets</b>		
Capital allowances	<b>3 372</b>	3 230
Operating lease accrual	<b>2 045</b>	1 423
Non-deductible accruals	<b>750</b>	408
Prepayments	<b>(119)</b>	43
Unrealised foreign exchange gain	<b>(301)</b>	(359)
	<b>5 747</b>	4 745

R000	Group		Company	
	2016	2015	2016	2015
<b>5. DEFERRED TAXATION</b> <i>continued</i>				
<b>Movement in deferred taxation liabilities</b>				
Balance at beginning of year	127 635	91 264	106 055	85 217
Current year temporary differences – profit or loss	13 818	18 141	12 878	2 640
– other comprehensive income	1 912	(937)	1 912	(937)
Acquisition through business combination	1 320	19 135	1 320	19 135
Foreign exchange movement	–	32	–	–
Balance at end of year	144 685	127 635	122 165	106 055
<b>Analysis of deferred taxation liabilities</b>				
Capital allowances	185 134	169 149	162 886	147 274
Defined-benefit pension scheme <sup>†</sup>	(2 939)	(4 218)	(2 939)	(4 218)
Retirement benefits	–	(1 916)	–	–
Income received in advance	(4 607)	(2 515)	(4 607)	(2 515)
BEE shareholder's loan	3 390	4 763	3 390	4 763
Operating lease accrual	(23 070)	(23 933)	(23 070)	(23 933)
Prepayments	1 984	3 038	1 984	3 038
Share options	(4 887)	(7 353)	(4 887)	(7 353)
Non-deductible accruals	(10 602)	(11 001)	(10 592)	(11 001)
Unrealised foreign exchange gain	282	1 621	–	–
	144 685	127 635	122 165	106 055
The expected manner of recovery of the deferred tax asset and settlement of the liability will be through use.				
The tax rate used to calculate the deferred tax balance is:				
South Africa – 28% (2015: 28%)				
Botswana – 22% (2015: 22%)				
Kenya – 30% (2015: 30%)				
Tanzania – 30%				
<b>6. INVENTORIES</b>				
Food, liquor and beverages	7 734	7 122	3 682	3 405

<sup>†</sup> Items included in other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Group		Company	
	2016	2015	2016	2015
<b>7. OTHER RECEIVABLES</b>				
Loans due from related parties (refer to note 28)			<b>10 696</b>	14 234
Prepayments	<b>11 741</b>	16 333	<b>10 352</b>	15 547
Sundry receivables	<b>24 207</b>	16 368	<b>17 687</b>	14 800
	<b>35 948</b>	32 701	<b>38 735</b>	44 581
<b>8. OTHER INVESTMENTS</b>				
Other investments comprises bank balances held in Chase Bank Limited (in receivership). The bank was put under receivership on 7 April 2016 by the Central Bank of Kenya and was reopened on 27 April 2016 under a receiver manager.	<b>56 860</b>	–		
Based on representations made by the receiver manager, the directors have made an assessment of the recoverability of the balances and are of the opinion that the balances will be recoverable within the 12-month period.				
<b>9. SHARE CAPITAL AND PREMIUM</b>				
<b>Share capital</b>				
Authorised				
50 000 000 ordinary shares of 10 cents each	<b>5 000</b>	5 000	<b>5 000</b>	5 000
Issued				
43 406 753 (2015: 43 346 593) ordinary shares of 10 cents each	<b>4 341</b>	4 335	<b>4 341</b>	4 335
Balance at beginning of year 43 346 593 (2015: 43 220 553) ordinary shares of 10 cents each	<b>4 335</b>	4 322	<b>4 335</b>	4 322
Options exercised during the period 60 160 (2015: 126 040) of 10 cents each	<b>6</b>	13	<b>6</b>	13
<b>Share premium</b>	<b>163 617</b>	159 667	<b>163 617</b>	159 667
Balance at beginning of year	<b>159 667</b>	153 933	<b>159 667</b>	153 933
Premium on issue of new ordinary shares	<b>3 950</b>	5 734	<b>3 950</b>	5 734
	<b>167 958</b>	164 002	<b>167 958</b>	164 002



R000	Group		Company	
	2016	2015	2016	2015
<b>10. OTHER RESERVES</b>				
<b>Share-based payment reserve</b>	<b>82 512</b>	79 640	<b>82 512</b>	79 640
Balance at beginning of year	<b>79 640</b>	85 741	<b>79 640</b>	85 741
Expense for the year – share incentive scheme (refer to note 17)	<b>14 115</b>	15 713	<b>14 115</b>	15 713
Reserve transferred to retained earnings on exercise of vested rights	<b>(11 243)</b>	(21 814)	<b>(11 243)</b>	(21 814)
The share-based payment reserve relates to the accumulated cost for the future settlement of obligations arising from the share incentive schemes.				
<b>Equity component of BEE shareholder's loan</b>	<b>26 941</b>	26 941	<b>26 941</b>	26 941
The equity component of the shareholder's loan relates to the equity contribution received from Vuwa Investments Proprietary Limited in respect of the BEE transaction concluded in July 2008.				
<b>Foreign currency translation reserve</b>	<b>35 563</b>	1 470		
Balance at beginning of year	<b>1 470</b>	1 257		
Foreign currency translation differences	<b>34 093</b>	213		
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.				
	<b>145 016</b>	108 051	<b>109 453</b>	106 581

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Group		Company	
	2016	2015	2016	2015
<b>11. INTEREST-BEARING BORROWINGS</b>				
<b>Secured bank loan</b>				
The Loan A is a revolver facility of R250 million in total and bears interest at the one, three or six-month JIBAR plus 1,75 (2015: 1,75) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 2020.	250 000	250 000	–	250 000
The Loan B is a revolver facility of R200 million in total and bears interest at the one, three or six-month JIBAR plus 2,45 percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 2021.	20 000	–	–	–
Interest repayments are made according to the interest period selected on the drawdown notice.				
The loan facility has been granted to City Lodge Hotels (Africa) Proprietary Limited.				
The loan is secured over land and buildings with a carrying amount of R166,6 million (2015: R97,9 million), and has been guaranteed by City Lodge Hotels Limited.				
The required bank covenants have been met.				
<b>Unsecured loan</b>				
This loan to City Lodge Hotels Limited from City Lodge Hotels (Africa) Proprietary Limited is made under the same interest and repayment terms as Loan A above. It was raised to facilitate the transfer of the borrowings from the former to the latter as part of the facility put in place to fund future expansion (refer to note 28).			250 000	–
	270 000	250 000	250 000	250 000
<i>Less: Amounts to be repaid within one year</i>	–	–	–	–
Non-current liabilities	270 000	250 000	250 000	250 000
<b>12. BEE INTEREST-BEARING BORROWINGS</b>				
The loans are secured by a guarantee provided by City Lodge Hotels Limited.	44 120	44 120	44 120	44 120
The loans bear interest at the six-month JIBAR rate plus 2,5 percentage points. Interest repayments are made every six months in arrears.				
The loan capital is repayable by 31 December 2017.				
	44 120	44 120	44 120	44 120
<i>Less: Amounts to be repaid within one year</i>	–	–	–	–
Non-current liabilities	44 120	44 120	44 120	44 120

R000	Group		Company	
	2016	2015	2016	2015
<b>13. BEE PREFERENCE SHARES</b>				
Proceeds from the issue of redeemable preference shares	440 700	440 700	440 700	440 700
Redeemed during prior years	(28 600)	(19 800)	(28 600)	(19 800)
Redeemed during current year	(14 600)	(8 800)	(14 600)	(8 800)
	<b>397 500</b>	412 100	<b>397 500</b>	412 100

On 8 July 2008, the City Lodge group effected a Black Economic Empowerment scheme with Vuwa Hotels Proprietary Limited, Newshelf 935 Proprietary Limited and Newshelf 892 Proprietary Limited. In terms of the scheme, 15% (6 390 362) of the then issued share capital of City Lodge was acquired by the three structured entities in terms of a scheme of arrangement. A and B cumulative redeemable preference shares were issued by the structured entities to fund a portion of the purchase price of the investment in City Lodge Hotels Limited. These have been guaranteed by City Lodge resulting in the deemed control of the structured entities by the company and their incorporation for accounting purposes. Standard Bank of South Africa subscribed for R195,0 million amortising, seven-year A preference shares bearing interest at 70% of the prime interest rate and R245,7 million cumulative zero coupon five-year B preference shares bearing interest at 71% of the prime interest rate. The final redemption date is 31 December 2017. Ordinary dividends received by the structured entities must be used to service and repay the preference shares. There is a lock-in period applicable to the disposal of shares held by Vuwa Hotels Proprietary Limited until 31 December 2017, whereby shares may only be disposed of to black persons.

A once-off, share-based, equity-settled option expense was recognised during the 2009 financial year amounting to R25,84 million.

An amount of R203,3 million (2015: R171,3 million) was accrued in respect of preference dividends payable as at 30 June 2016. Of this, R3,1 million (2015: R3,1 million) in respect of A preference shares is included under trade and other payables (refer to note 16) due in September 2016 and R200,2 million (2015: R168,2 million) in respect of B preference shares payable beyond one year's time.

R000	Group		Company	
	2016	2015	2016	2015
Voluntary redemption of A and B preference shares may be made, with full redemption of the preference shares required by 31 December 2017. The minimum scheduled redemptions in respect of A and B preference shares are as follows:				
– not later than one year	–	–	–	–
– between one and five years	397 500	412 100	397 500	412 100
– later than five years	–	–	–	–

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Group		Company	
	2016	2015	2016	2015
<b>14. BEE SHAREHOLDER'S LOAN</b>				
<b>Vuwa Investments Proprietary Limited</b>				
Loan granted	50 000	50 000	50 000	50 000
Equity component of BEE shareholder's loan	(37 418)	(37 418)	(37 418)	(37 418)
Notional interest expense – prior years	20 406	16 136	20 406	16 136
Notional interest expense – current year	4 905	4 270	4 905	4 270
The BEE shareholder's loan represents the equity contribution by Vuwa Investments Proprietary Limited to the Vuwa structured entity as part funding to purchase shares in City Lodge Hotels Limited.				
The loan is measured at amortised cost of R37,893 million (2015: R32,988 million). The notional debit to interest expense at a rate of 14,35% per annum was R4 905 (2015: R4 270). The future value of the loan is R50 million.				
The loan is unsecured, bears notional interest at 14,35%, and is repayable on demand after 31 December 2017.				
	<b>37 893</b>	32 988	<b>37 893</b>	32 988
<b>15. OTHER NON-CURRENT LIABILITIES</b>				
Operating lease accrual	91 709	91 964	82 415	85 496
Defined-benefit obligation (refer to note 24)	10 494	15 062	10 494	15 062
Kenyan termination benefit obligation (refer to note 24)	–	6 350	–	–
	<b>102 203</b>	113 376	<b>92 909</b>	100 558
<b>16. TRADE AND OTHER PAYABLES</b>				
Trade payables	7 951	6 019	6 395	5 636
Loans due to related parties (refer to note 28)			57 648	30 963
Sundry accruals	78 114	72 226	76 069	70 098
Other trade payables	44 481	28 127	34 822	39 174
Preference dividend payable	3 147	3 102	3 147	3 102
	<b>133 693</b>	109 474	<b>178 081</b>	148 973

R000	Group		Company	
	2016	2015	2016	2015
<b>17. RESULTS FROM OPERATING ACTIVITIES</b>				
<b>Is arrived at after charging/(crediting)</b>				
Auditors' remuneration	4 374	3 239	3 586	2 593
Audit fees	3 082	2 369	2 319	1 825
Fees for other services	1 292	870	1 267	768
BEE transaction charges	858	301	858	301
– loss on fair value of interest rate swap	–	67	–	67
– sundry expenses	858	234	858	234
Defined-benefit plan expense (refer to note 24)	10 444	8 209	10 444	8 209
Defined-contribution plan expense	14 713	12 722	14 713	12 722
Depreciation and amortisation	96 399	86 380	87 871	78 359
– buildings	42 613	34 936	39 397	31 899
– furniture and equipment	51 887	51 140	46 575	46 156
– computer software	1 899	304	1 899	304
Food, liquor and beverages	69 538	59 194	51 685	43 891
Gratuity benefit expense (refer to note 24)	–	2 000	–	–
Operating lease rentals	88 363	78 120	105 713	93 923
– land	23 851	23 170	48 322	45 417
– hotel buildings	60 913	51 611	53 792	45 167
– office buildings	3 599	3 339	3 599	3 339
Pre-opening expenses	2 947	2 362	2 947	2 362
Profit on disposal of property, plant and equipment	(229)	(762)	(77)	(762)
Salaries, wages and related benefits	337 476	298 055	305 435	269 796
– employed	294 411	261 435	263 799	234 411
– subcontracted	43 065	36 620	41 636	35 385
Rent received	(1 670)	(1 106)	(1 670)	(1 106)
Share-based payment expense (refer to note 24)	14 115	15 713	14 115	15 713
– City Lodge 10th anniversary employees' share trust	3 158	3 137	3 158	3 137
– City Lodge bonus share plan	6 006	3 106	6 006	3 106
– City Lodge deferred bonus plan	52	330	52	330
– City Lodge restricted share plan	–	2 745	–	2 745
– City Lodge share appreciation rights scheme	4 899	6 395	4 899	6 395

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

## 18. DIRECTORS' EMOLUMENTS

R000	Basic salary	Performance bonus	Fringe benefits and allowances	Pension fund contributions	Total annual remuneration	Current year share-based payment expense*	Total
<b>Executive directors</b>							
<b>2016</b>							
C Ross	4 159	3 354	63	665	8 241	3 110	11 351
A C Widegger	3 238	2 596	34	518	6 386	2 228	8 614
	<b>7 397</b>	<b>5 950</b>	<b>97</b>	<b>1 183</b>	<b>14 627</b>	<b>5 338</b>	<b>19 965</b>
<b>2015</b>							
C Ross	3 831	3 386	63	641	7 921	3 638	11 559
A C Widegger	3 023	2 658	34	506	6 221	2 678	8 899
	6 854	6 044	97	1 147	14 142	6 316	20 458

Executive directors are full-time salaried employees, engaged on the company's standard terms and conditions of employment.

\*This expense represents the IFRS 2 costs for the year of any option or right given or reversed (refer to note 24).

**Non-executive directors**

R000	Fees	
	2016	2015
G G Huysamer	312	135
F W J Kilbourn	478	396
I N Matthews	–	187
N Medupe	366	299
S G Morris	447	350
B T Ngcuka (payment made to Vuwa Investments Proprietary Limited)	830	829
V M Rague	100	–
K I M Shongwe	310	233
W Tlou	184	202
	<b>3 027</b>	2 631

No other payments were made to directors.

18. DIRECTORS' EMOLUMENTS *continued***Executive committee**

In line with the requirements of the Companies Act and King III, the group discloses the remuneration paid to prescribed officers who are defined as the group's executive committee. Prescribed officers are full-time salaried employees, engaged on the company's standard terms and conditions of employment.

R000	Basic salary	Performance bonus	Fringe benefits and allowances	Pension fund contributions	Total annual remuneration	Current year share-based payment expense*	Total
<b>2016</b>							
A J Balabanoff	1 716	613	41	275	2 645	443	3 088
G D Bisset <sup>Δ</sup>	566	–	13	91	670	–	670
A W Dooley	1 446	445	32	152	2 075	370	2 445
M S Kobilski	1 463	565	2	234	2 264	367	2 631
N R B Parbhoo	1 249	395	29	200	1 873	311	2 184
R V Phinn	1 612	559	27	258	2 456	403	2 859
L G Sangweni-Siddo <sup>■</sup>	1 146	244	1	76	1 467	–	1 467
P M Schoeman	1 451	474	15	152	2 092	362	2 454
P Tate	1 741	536	17	278	2 572	440	3 012
	<b>12 390</b>	<b>3 831</b>	<b>177</b>	<b>1 716</b>	<b>18 114</b>	<b>2 696</b>	<b>20 810</b>
<b>2015</b>							
A J Balabanoff	1 601	826	41	268	2 736	470	3 206
G D Bisset	1 603	774	39	268	2 684	475	3 159
A W Dooley	1 347	672	32	141	2 192	382	2 574
M S Kobilski	1 367	597	2	229	2 195	398	2 593
N R B Parbhoo	1 166	463	29	195	1 853	341	2 194
R V Phinn	1 482	772	27	248	2 529	396	2 925
P M Schoeman	1 356	608	15	142	2 121	394	2 515
P Tate	1 625	790	17	272	2 704	471	3 175
	11 547	5 502	202	1 763	19 014	3 327	22 341

\* This expense represents the IFRS 2 costs for the year of any option or right given or reversed (refer to note 24).

■ Appointed on 16 September 2015.

Δ Resigned during the year.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

## 18. DIRECTORS' EMOLUMENTS continued

	Date of grant	Grant price (R)	Holding at 30 June 2015	Exercised	Holding at 30 June 2016	Lapse date	Number vesting at 30 June 2016
<b>Share appreciation rights</b>							
C Ross	1/09/2010	74,62	57 499	(57 499)	–	1/09/2017	–
	1/09/2011	63,61	79 163	–	79 163	1/09/2018	79 163
	1/09/2012	85,66	92 313	–	92 313	1/09/2019	92 313
	1/09/2013	120,83	39 929	–	39 929	1/09/2020	–
	1/09/2014	123,17	42 108	–	42 108	1/09/2021	–
	1/09/2015	143,99	–	–	39 081	1/09/2022	–
A C Widegger	1/09/2010	74,26	39 155	–	39 155	1/09/2017	39 155
	1/09/2011	63,61	53 905	–	53 905	1/09/2018	53 905
	1/09/2012	85,66	62 110	–	62 110	1/09/2019	62 110
	1/09/2013	120,83	26 136	–	26 136	1/09/2020	–
	1/09/2014	123,17	27 539	–	27 539	1/09/2021	–
	1/09/2015	143,99	–	–	25 207	1/09/2022	–
			519 857	(57 499)	526 646		326 646

	Date of offer	Number of bonus shares	Share acquisition price	Matching shares	Vesting date
<b>Deferred bonus plan</b>					
C Ross	1/09/2012	6 380	85,96	6 380	1/09/2015
A C Widegger	1/09/2012	5 220	85,96	5 220	1/09/2015
Bonus shares vested during year		11 600 (11 600)		11 600 (11 600)	
		–		–	

Refer to note 24 for details of the deferred bonus plan.



18. DIRECTORS' EMOLUMENTS *continued*

	Date of grant	Exercise price (R)	Holding at 30 June 2015	Exercised	Holding at 30 June 2016	Lapse date	Number vesting at 30 June 2016
<b>Directors' share options</b>							
C Ross	9/11/2006 8/05/2007	58,59 80,31	52 650 28 000	– –	<b>52 650</b> <b>28 000</b>	9/11/2016 8/05/2017	<b>52 650</b> <b>28 000</b>
			80 650	–	<b>80 650</b>		<b>80 650</b>
A C Widegger	9/11/2006 8/05/2007	58,59 80,31	31 590 16 800	– –	<b>31 590</b> <b>16 800</b>	9/11/2016 8/05/2017	<b>31 590</b> <b>16 800</b>
			48 390	–	<b>48 390</b>		<b>48 390</b>
	Date of award	Number of restricted shares	Share acquisition price (R)	Vesting date			
<b>Restricted share plan – bonus shares</b>							
A J Balabanoff	4/09/2015	2 242	148,31	3/09/2018			
A W Dooley	4/09/2015	1 824	148,31	3/09/2018			
M S Kobilski	4/09/2015	1 622	148,31	3/09/2018			
N R B Parbhoo	4/09/2015	1 256	148,31	3/09/2018			
R V Phinn	4/09/2015	2 094	148,31	3/09/2018			
C Ross	4/09/2015	11 488	148,31	3/09/2018			
P M Schoeman	4/09/2015	1 650	148,31	3/09/2018			
P Tate	4/09/2015	2 143	148,31	3/09/2018			
A C Widegger	4/09/2015	9 016	148,31	3/09/2018			
		33 335					

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

18. DIRECTORS' EMOLUMENTS *continued*

	Date of award	Number of restricted shares	Share acquisition price (R)	Vesting date
<b>Restricted share plan – bonus shares</b>				
A J Balabanoff	8/10/2014	1 594	124,41	7/10/2017
G D Bisset <sup>Δ</sup>	8/10/2014	1 734	124,41	7/10/2017
A W Dooley	8/10/2014	1 432	124,41	7/10/2017
M S Kobilski	8/10/2014	1 455	124,41	7/10/2017
N R B Parbhoo	8/10/2014	1 267	124,41	7/10/2017
R V Phinn	8/10/2014	1 428	124,41	7/10/2017
C Ross	8/10/2014	11 386	124,41	7/10/2017
P M Schoeman	8/10/2014	1 337	124,41	7/10/2017
P Tate	8/10/2014	1 594	124,41	7/10/2017
A C Widegger	8/10/2014	9 020	124,41	7/10/2017
		32 247		
Lapsed during the year		(1 734)		
		30 513		
<b>Restricted share plan – bonus shares</b>				
A J Balabanoff	6/09/2013	1 227	122,15	5/09/2016
G D Bisset <sup>Δ</sup>	6/09/2013	1 229	122,15	5/09/2016
A W Dooley	6/09/2013	969	122,15	5/09/2016
M S Kobilski	6/09/2013	1 056	122,15	5/09/2016
N R B Parbhoo	6/09/2013	898	122,15	5/09/2016
R V Phinn	6/09/2013	1 009	122,15	5/09/2016
C Ross	6/09/2013	10 221	122,15	5/09/2016
P M Schoeman	6/09/2013	1 046	122,15	5/09/2016
P Tate	6/09/2013	1 249	122,15	5/09/2016
A C Widegger	6/09/2013	8 253	122,15	5/09/2016
		27 157		
Lapsed during the year		(1 229)		
		25 928		

No consideration was received by the company on the award of the restricted share plan ordinary shares (refer to note 24).

<sup>Δ</sup> Resigned during the year.

R000	Group		Company	
	2016	2015	2016	2015
<b>19. INTEREST</b>				
<b>19.1 Interest income</b>				
Bank interest	2 055	3 409	1 485	1 502
Loans to Courtyard Joint Venture	–	1 248	–	1 248
IAS 39 – <i>Effective Interest</i> (refer to note 4)			2 330	4 478
Interest from subsidiaries			7 860	7 812
Other	213	94	213	94
	<b>2 268</b>	4 751	<b>11 888</b>	15 134
<b>19.2 Interest expense</b>				
Long-term borrowings	26 358	19 432	25 912	19 432
Short-term borrowings	27	7	27	7
IAS 39 – <i>Effective Interest</i> (refer to note 14)	4 905	4 270	4 905	4 270
Preference dividend	44 368	39 542	44 368	39 542
	<b>75 658</b>	63 251	<b>75 212</b>	63 251
Interest capitalised to property, plant and equipment	(1 135)	–	(689)	–
	<b>74 523</b>	63 251	<b>74 523</b>	63 251
Interest is capitalised to property, plant and equipment at 8,87% per annum.				
<b>20. TAXATION</b>				
Current	123 821	120 692	101 416	99 016
Adjustment for prior years	69	212	(60)	(53)
Dividend withholding tax	27	32		
Deferred – current	12 937	17 062	12 878	2 640
	<b>136 854</b>	137 998	<b>114 234</b>	101 603
<b>Reconciliation of taxation rate</b>				
Domestic statutory tax rate	28	28	28	28
<b>Adjusted for:</b>				
– BEE transactions	3,1	2,7	3,6	3,1
– exempt income	–	(3,3)	–	(4,0)
– effect of tax rates in foreign jurisdictions	0,2	3,6		
– disallowable expenses	0,3	0,2	0,1	–
– deductible expense for share appreciation right scheme shares purchased during the year	(1,3)	(0,9)	(1,5)	(1,0)
Effective rate of taxation	<b>30,3</b>	30,3	<b>30,2</b>	26,1

## 21. BASIC AND HEADLINE EARNINGS PER SHARE

The calculation of basic and diluted earnings per share at 30 June 2016 was based on profit for the year of R315,288 million (2015: R318,262 million), and a weighted average number of shares of 36 309 000 (2015: 36 229 000) for basic earnings per share, and 36 537 000 (2015: 36 755 000) for diluted earnings per share.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Group	
	2016	2015
<b>21. BASIC AND HEADLINE EARNINGS PER SHARE</b> <i>continued</i>		
<b>Determination of headline earnings and normalised headline earnings</b>		
Profit for the year	315 288	318 262
Fair value gain on remeasurement of investment in joint venture	–	(59 977)
Write-off of net investment in joint venture	–	4 111
Profit on sale of property, plant and equipment	(229)	(762)
Taxation effect	67	213
Headline earnings	315 126	261 847
BEE transaction charges	858	301
– loss on fair value of interest rate swap	–	67
– sundry expenses	858	234
Notional interest charge on BEE shareholder's loan	4 905	4 270
Interest on BEE interest-bearing borrowings	4 248	4 041
Preference dividends paid/payable by the BEE entities	44 368	39 542
Deferred tax on BEE transactions	(1 373)	(1 196)
Notional interest income on 10th anniversary employees' share trust loan	2 330	4 478
10th anniversary employees' share trust transaction charges and Dividends Withholding Tax	49	69
IFRS 2 share-based payment charge for the 10th anniversary employees' share trust	3 158	3 137
Once-off deferred tax raised due to introduction of Capital Gains Tax in Kenya	–	15 562
Normalised headline earnings	373 669	332 051
<b>Number of shares for EPS calculations (000)</b>		
Undiluted weighted average	36 309	36 229
Restricted share plan/bonus shares	84	38
Share appreciation rights	51	373
Share options	93	115
Diluted	36 537	36 755
<b>Number of shares for normalised EPS calculations (000)</b>		
Undiluted weighted average	36 309	36 229
BEE shares treated as treasury shares	6 390	6 390
10th anniversary employees' share trust treated as treasury shares	527	549
Normalised undiluted weighted average	43 226	43 168
Restricted share plan	84	38
Share appreciation rights	51	373
Share options	93	115
Normalised diluted weighted average	43 454	43 694
<b>Headline earnings per share (cents)</b>	867,9	722,8
<b>Diluted headline earnings per share (cents)</b>	862,5	712,4
<b>Normalised headline earnings per share (cents)</b>	864,5	769,2
<b>Normalised diluted headline earnings per share (cents)</b>	859,9	759,9

R000	Group		Company	
	2016	2015	2016	2015
<b>22. DIVIDENDS</b>				
Number 53 of 230,0 cents per share (2015: 189,0 cents) declared on 13 August 2015 and paid on 14 September 2015	99 702	81 687	99 702	81 687
Number 54 of 269,0 cents per share (2014: 230,0 cents) declared on 18 February 2016 and paid on 11 March 2016	116 683	99 496	116 683	99 496
Dividends attributable to treasury shares	(32 069)	(26 987)	(31 888)	(26 776)
	184 316	154 196	184 497	154 407
On 12 August 2016, dividend number 54 of 248,0 cents per share in respect of the year ended 30 June 2016 was declared totalling R107 648 747 payable on 9 September 2016. These financial statements do not reflect this dividend payable.				
<b>23. COMMITMENTS</b>				
<b>Capital Authorised</b>				
– contracted	389 075	109 325	7 500	76 825
– not contracted	469 465	905 905	30 840	72 155
	858 540	1 015 230	38 340	148 980
Future capital expenditure will be financed out of funds generated from operations and external borrowings and it is anticipated that approximately R553 million will be spent by 30 June 2017.				
<b>Operating leases as lessee</b>				
The company is party to various operating leases of periods between 20 and 99 years in respect of land and hotel buildings and five years, in respect of office buildings.				
Schedule of minimum lease payments in respect of land, hotel building and office building leases:				
– not later than one year	95 145	81 299	89 607	76 607
– between one and five years	361 264	354 630	334 956	332 342
– later than five years	546 285	518 522	480 102	451 947
	1 002 694	954 451	904 665	860 896
<b>Guarantees</b>				
Total financial institution-backed guarantees provided to third parties on behalf of the company amounted to R472,3 million. The directors do not believe any exposure to loss is likely. The issued guarantees have the following expiry dates:				
– not later than one year	62 133	–	62 133	–
– between one and five years	397 500	412 100	397 500	412 100
– later than five years	12 652	12 652	12 652	12 652

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

## 24. EMPLOYEE BENEFITS

**Retirement benefit information**

The group and company provide retirement benefits for 6% (2015: 6%) of the group's permanent employees through a defined-benefit pension scheme that is subject to the Pension Funds Act, 1956, as amended. This fund was closed to new membership on 28 February 2004 and a new defined-contribution fund was established. Company contributions to this new fund are fixed at a rate of 10,5% of pensionable salaries and 38% (2015: 38%) of the group's permanent employees are members. Employees who are not members of the above funds are members of the appropriate industry fund.

A statutory actuarial valuation of the defined-benefit fund is undertaken every three years. At 31 July 2013, the effective date of the most recent statutory actuarial valuation, the retirement benefit fund was found to have a deficit of R2,6 million.

The fund is managed by a board of trustees, consisting of a combination of member elected and employer appointed trustees. The board has a fiduciary duty to act in the best interest of all stakeholders.

The employer is responsible to fund the balance of the costs of paying the defined benefits. Adverse fund experience (eg higher than expected salary increases or lower than expected investment returns) therefore exposes the employer to higher than expected future required contributions.

As the fund is closed to new members, the employer's exposure to risk is continuously decreasing. However, the level of uncertainty about future experience increases where assumptions apply to a decreasing number of members.

The fund is in the process of winding down. It is the intention to transfer all active members and their corresponding liabilities out of the fund, to a defined-contribution fund with effect from 1 July 2015, subject to approval by the Registrar. This has, however, not been taken into consideration in the results of this valuation as the required approvals are still to be obtained.

The current estimate in terms of IAS 19, as at 30 June 2016, as shown below, indicates that the fund has a deficit of R10 494 000 (2015: R15 062 000). The actuarial loss due to change in demographic assumptions was Rnil (2015: Rnil). The actuarial gains due to changes in financial assumptions and experience were R2 124 000 and R3 663 000 respectively.

R000	Group and company	
	2016	2015
Current estimated employee benefit obligation:		
Present value of obligation	<b>(159 536)</b>	(159 284)
Fair value of plan assets	<b>149 042</b>	144 222
Liability at year-end (refer to note 15)	<b>(10 494)</b>	(15 062)
Recognised in profit or loss:		
Current service cost	<b>(9 078)</b>	(7 270)
Interest on obligation	<b>(14 760)</b>	(14 615)
Expected return on plan assets	<b>13 394</b>	13 676
	<b>(10 444)</b>	(8 209)
Recognised in the statement of financial position:		
Opening net liability	<b>(15 062)</b>	(10 049)
Expense	<b>(10 444)</b>	(8 209)
Contributions paid	<b>8 185</b>	6 543
Amount recognised in other comprehensive income	<b>6 827</b>	(3 347)
Closing net liability	<b>(10 494)</b>	(15 062)
Movement in the liability for defined-benefit obligations:		
Liability for defined-benefit obligations at 1 July	<b>159 284</b>	140 361
Service cost	<b>9 078</b>	7 270
Interest cost	<b>14 760</b>	14 615
Benefits paid	<b>(17 799)</b>	(2 059)
Actuarial gain	<b>(5 787)</b>	(903)
Liability for defined-benefit obligations at 30 June	<b>159 536</b>	159 284

R000	Group and company	
	2016	2015
<b>24. EMPLOYEE BENEFITS</b> <i>continued</i>		
<b>Retirement benefit information</b> <i>continued</i>		
Movement in plan assets		
Fair value of plan assets at 1 July	144 222	130 312
Expected return on plan assets	13 394	13 676
Contributions	8 185	6 543
Benefits paid	(17 799)	(2 059)
Actuarial gain/(loss)	1 040	(4 250)
Fair value of plan assets at 30 June	149 042	144 222
	<b>%</b>	<b>%</b>
Plan assets comprise:		
Cash	100	100
All assets are currently held in banker and money market portfolios in anticipation of the imminent transfer of all assets and liabilities.		
Principal actuarial assumptions at the reporting date:		
Discount rate	11,2	9,6
Expected return on plan assets	11,2	9,6
Future salary increases	10,2	8,4
Future pension increases	6,9	5,6
Mortality rates post-retirement	PA(90) ultimate mortality table rated down by 1 year	PA(90) ultimate mortality table rated down by 1 year

The expected return on plan assets was set equal to the discount rate. The actual return earned on plan assets for the year was 7,5%.

Included below is a sensitivity analysis in respect of accrued liabilities showing the effects of different key assumptions:

R000	Increase	Decrease
Discount rate – 11,2% with 1% movement	(22 678)	37 053
Rate of salary increase – 10,2% with 1% movement	19 177	(11 025)
Rate of pension increase – 6,9% with 1% movement	14 951	(13 068)
Rate of mortality – three years younger or older than assumed	(14 912)	11 846

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

24. EMPLOYEE BENEFITS *continued***Medical aid**

Certain of the group's employees are members of the Discovery Health Medical Scheme. There are no obligations for post-retirement medical aid contributions.

**Kenyan Staff Gratuity Benefit**

In Kenya, the group previously provided gratuity benefits upon termination of employment to qualifying employees in accordance with the Kenyan Collective Bargaining Agreement ("CBA") following a minimum period of five years' service. The group was responsible for the cost of this benefit as and when it accrued with reference to service and salary at the date of exit. During the year, a change in the terms of the CBA resulted in this benefit obligation being transferred into a managed umbrella fund, with monthly contributions to the fund being included in salary expenses.

R000	Group	
	2016	2015
Current estimated staff gratuity benefit:		
Present value of obligation	–	6 350
Liability at year-end (refer to note 15)	–	6 350
Recognised in profit or loss:		
Current service cost	–	1 141
Interest on obligation	–	859
	–	2 000
Movement in the liability for staff gratuity benefit:		
Liability for staff gratuity benefit obligations at 1 July	6 350	4 376
Service cost	–	1 141
Interest cost	–	859
Benefits paid	–	(26)
Transferred to umbrella fund	(6 350)	–
Liability for staff gratuity benefit at 30 June	–	6 350
%	2016	2015
Principal actuarial assumptions at the reporting date:		
Discount rate	–	13
Future salary increases	–	10
Mortality rates	–	SA 85 – 90 ultimate mortality table



## 24. EMPLOYEE BENEFITS *continued*

### 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 over a three-year performance period. 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. 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 was incorporated into the measurement of fair value. The share-based, equity-settled expense for the year ended 30 June 2016 in profit or loss is R4 899 365 (2015: R6 395 189).

	2016		2015	
	Number of SARs	Weighted average strike price (R)	Number of SARs	Weighted average strike price (R)
Outstanding at beginning of period	1 187 563	86,47	1 332 505	78,97
Granted during period	105 016	143,99	119 891	123,17
Forfeited during period	(20 642)	98,63	(30 143)	80,14
Exercised during period	(500 778)	79,02	(234 690)	63,61
Expired during period	–	–	–	–
Outstanding at end of period	771 159	98,68	1 187 563	86,47
Exercisable at end of period	443 646	76,25	165 818	63,61
			2016	2015
Average remaining life (years)			3,28	3,65
American binomial model inputs as follows:				
Volatility (%)			24	21
Risk-free rate (%)			8,00	7,53
Dividend yield (%)			2,79	2,72
Expected life (years)			7	7
Strike price (Rand)			143,99	123,17
Average share price (Rand)			143,99	123,17
Option price (Rand)			46,99	36,85

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

24. EMPLOYEE BENEFITS *continued***Share-based payments** *continued*

## Equity-settled deferred bonus plan

Certain employees will be permitted to use a portion of the after-tax component of their annual bonus to acquire bonus shares at market value. A matching award will be made to the participants on the condition that they remain in the employment of the company for the deferred bonus plan period. The deferred bonus plan provides for a grant price equal to zero. The vesting and expiry period is generally three years. Matching awards are forfeited if the employee leaves the group before they vest. 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 was incorporated into the measurement of fair value. Fair value is measured using a European binomial valuation model. The share-based, equity-settled expense for the year ended 30 June 2016 in profit or loss is R51 869 (2015: R330 265).

	2016		2015	
	Number of options	Weighted average strike price (R)	Number of options	Weighted average strike price (R)
Outstanding at beginning of period	11 600	0	19 250	0
Forfeited during period	–	–	–	–
Granted during period	–	–	–	–
Vested during period	(11 600)	–	(7 650)	–
Outstanding at end of period	–	–	11 600	0

	2016	2015
Average remaining life (years)	0	0,17
European binomial model inputs as follows:		
Volatility (%)	–	–
Risk-free rate (%)	–	–
Dividend yield (%)	–	–
Expected life (years)	–	–
Strike price (Rand)	–	–
Average share price (Rand)	–	–
Option price (Rand)	–	–

## 24. EMPLOYEE BENEFITS *continued*

### Share-based payments *continued*

#### Equity-settled 10th anniversary employee share plan

The group plan provides for an annual share distribution equal to half of the financial year's capital growth, if any, of the portfolio of City Lodge shares held by the trust. The distributions to eligible employees (employees in the service of the group for at least one year) are equity-settled three months after year-end, provided that the portfolio's market value at year-end exceeds the market value at the previous year-end. Entitlements are forfeited if the employee leaves the group's service before a distribution takes place. The vesting period is one year. Expected volatility was determined by calculating the historical volatility of the group's share price over the previous two years. Fair value is measured using a European binomial valuation model. The share-based, equity-settled expense for the year ended 30 June 2016 in profit or loss is R3 158 246 (2015: R3 136 992).

	2016 Number of shares	2015 Number of shares
Outstanding at beginning of period	549 349	549 349
Distributed during period	(22 800)	–
Acquired during period	–	–
Outstanding at end of period	526 549	549 349

	2016		2015	
	Per share	Total portfolio	Per share	Total portfolio
European binomial model inputs as follows:				
Volatility (%)	23	23	19	19
Risk-free rate (%)	6,49	6,49	6,30	6,30
Dividend yield (%)	2,56	2,56	2,52	2,52
Expected life (years)	1	1	1	1
Effective strike price (Rand)	138,76	73 060 670	127,00	69 767 323
Share price (Rand)	145,02	76 354 018	127,00	69 767 323
Effective option price (Rand)	6,00	3 158 246	5,71	3 136 992

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

**24. EMPLOYEE BENEFITS** continued**Share-based payments** continued**Equity-settled restricted share plan**

Certain employees will become owners of ordinary shares, which were acquired on the market, for award. From the grant date, they will immediately benefit from dividends and have shareholder voting rights, thus providing direct alignment between participants and shareholders. The employee will give no consideration for the grant or settlement of an award. In the case of resignation or dismissal, all unvested awards will be forfeited. The vesting period is generally three years. The share-based, equity-settled expense for the year ended 30 June 2016 in profit or loss is R6 005 778 (2015: R5 850 413).

	2016		2015	
	Number of shares granted	Average share price (R)	Number of shares granted	Average share price (R)
Unvested at beginning of period	88 189	124,03	272 076	81,20
Granted during period	57 005	148,31	47 484	125,08
Vested during period	–	–	(231 371)	73,88
Unvested at end of period	145 194	133,56	88 189	124,03

**25. BORROWING POWERS**

The borrowings of the company are not limited by its memorandum of incorporation.

R000	Group		Company	
	2016	2015	2016	2015
<b>26. NOTES TO THE STATEMENTS OF CASH FLOWS</b>				
<b>26.1 Cash generated by operations</b>				
Profit before taxation	452 142	456 260	378 282	389 468
<b>Adjusted for:</b>				
– depreciation and amortisation	96 399	86 380	87 871	78 359
– movement in operating lease accrual	(255)	484	(3 081)	(2 083)
– interest income	(2 268)	(4 751)	(11 888)	(15 134)
– interest expense	74 523	63 251	74 523	63 251
– profit on disposal of property, plant and equipment	(229)	(762)	(77)	(762)
– loss on fair value of interest rate swap	–	67	–	67
– movement in defined-benefit liability	(4 568)	5 013	(4 568)	5 013
– defined-benefit remeasurements	6 827	(3 347)	6 827	(3 347)
– movement in termination benefit obligation	–	1 974	–	–
– share-based payment expense	14 115	15 713	14 115	15 713
– unrealised foreign currency loss	(877)	(119)	–	–
– fair value gain on remeasurement of investment in joint venture	–	(59 977)	–	(59 977)
– write-off of net investment in joint venture	–	4 111	–	4 111
– fair value gain on remeasurement of property, plant and equipment	(29)	–	(29)	–
Operating cash flows before working capital changes	635 780	564 297	541 975	474 679
Increase in inventories	(612)	(457)	(277)	(393)
(Increase)/decrease in trade and other receivables	(4 721)	(23 007)	6 511	(28 859)
Increase/(decrease) in trade and other payables	24 174	(11 059)	29 063	9 583
	654 621	529 774	577 272	455 010
<b>26.2 Taxation paid</b>				
Balance (owing)/overpaid at beginning of year	(1 351)	4 065	(4 334)	2 972
Taxation payable per statements of comprehensive income	(123 917)	(120 936)	(101 356)	(98 963)
Balance (overpaid)/owing at end of year	(4 389)	1 351	1 216	4 334
	(129 657)	(115 520)	(104 474)	(91 657)
<b>26.3 Investment to maintain operations</b>				
Additions to property, plant and equipment				
– land and buildings	(34 317)	(51 502)	(34 317)	(51 502)
– furniture and equipment	(32 767)	(53 761)	(31 007)	(52 099)
– computer software	(14 879)	(14 167)	(14 879)	(14 167)
	(81 963)	(119 430)	(80 203)	(117 768)
Less: Proceeds on disposal				
Furniture and equipment	415	918	228	918
	(81 548)	(118 512)	(79 975)	(116 850)

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

R000	Group		Company	
	2016	2015	2016	2015
<b>26. NOTES TO THE STATEMENTS OF CASH FLOWS</b> <i>continued</i>				
<b>26.4 Investment to expand operations</b>				
Additions to property, plant and equipment				
– land and buildings	(91 061)	(77 359)	61 251	(35 560)
– furniture and equipment	(19 284)	(12 649)	19 284	(12 649)
	(110 345)	(90 008)	80 535	(48 209)
<b>26.5 Investments and loans</b>				
Increase in investments	–	(58 527)	(3)	(58 538)
	–	(58 527)	(3)	(58 538)
<b>27. FINANCIAL INSTRUMENTS</b>				
<b>27.1 Classes of financial instruments</b>				
Financial assets				
Loan – Property Lodging Investments Proprietary Limited			62 800	62 800
Loans receivable	–	–	34 000	31 670
Trade receivables	97 408	95 934	89 389	90 054
Other receivables	24 207	16 368	28 383	29 034
Other investments	56 860	–	–	–
Cash and cash equivalents	104 309	85 362	28 650	–
Non-derivative financial liabilities				
Bank overdraft	–	(12 016)	–	(16 794)
Interest-bearing borrowings	(270 000)	(250 000)	(250 000)	(250 000)
BEE interest-bearing borrowings	(44 120)	(44 120)	(44 120)	(44 120)
BEE preference shares	(397 500)	(412 100)	(397 500)	(412 100)
BEE shareholder's loan	(37 893)	(32 988)	(37 893)	(32 988)
BEE B preference share dividend accrual	(200 171)	(168 191)	(200 171)	(168 191)
Trade and other payables	(133 693)	(109 474)	(178 081)	(148 973)

The fair value of the financial assets and liabilities approximates their carrying amount.

## 27. FINANCIAL INSTRUMENTS *continued*

**27.2 Market risk** – is the risk that changes in market rates such as interest rates, foreign exchange rates and equity prices will affect the group's income and value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

**(a) Interest rate risk** – fluctuations in interest rates impact the value of short-term investments and financing activities, giving rise to the interest rate risk. The group generally adopts a policy of ensuring that its exposure to changes in interest rates is limited by either fixing the rate or by linking the rate to the average medium term, risk-free rate over the period of the respective loan.

**(b) Currency risk**

**Currency risk related to investments in foreign entities**

The group has interest in entities which operate in various countries. A significant portion of the group's foreign revenue is earned in countries which have stable currencies. It is not the group's policy to hedge investments in foreign subsidiaries.

**Currency risk related to foreign transactions**

Each group entity operates predominantly within its own common monetary area and therefore the group has no significant currency risk with regards to operational activities. At year-end, all group entities had no foreign currency trade receivables or payables. It is not the group's policy to hedge transactions which are denominated in a currency other than the entities' functional currency, which mainly occurs with purchases.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

27. FINANCIAL INSTRUMENTS *continued*

**27.3 Liquidity risk** – is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity by managing its working capital, capital expenditure and cash flows, is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation. Ultimate responsibility for liquidity risk management rests with the board of directors. Typically the group ensures that it has sufficient cash on hand to meet operational expenses, including the servicing of financial obligations. The group also has access to overdraft facilities, which may be used to meet its financial obligations if necessary.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date:

R000	Carrying amount	Contractual undiscounted cash flows	Less than one year	Between one and five years	More than five years
<b>Group</b>					
<b>At 30 June 2016</b>					
<i>Non-derivative financial liabilities</i>					
Borrowings	270 000	368 204	24 163	344 041	–
BEE interest-bearing borrowings	44 120	50 671	4 374	46 297	–
BEE preference shares	397 500	420 355	12 929	407 426	–
BEE shareholder's loan	37 893	50 000	–	50 000	–
BEE B preference share dividend accrual	200 171	255 489	–	255 489	–
Trade payables	133 693	133 693	133 693	–	–
	<b>1 083 377</b>	<b>1 278 412</b>	<b>175 159</b>	<b>1 103 253</b>	<b>–</b>
<b>At 30 June 2015</b>					
<i>Non-derivative financial liabilities</i>					
Borrowings	250 000	348 545	19 741	328 804	–
BEE interest-bearing borrowings	44 120	54 402	4 122	50 280	–
BEE preference shares	412 100	447 795	11 316	436 479	–
BEE shareholder's loan	32 988	50 000	–	50 000	–
BEE B preference share dividend accrual	168 191	246 150	–	246 150	–
Trade payables	109 474	109 474	109 474	–	–
Bank overdraft	12 016	12 016	12 016	–	–
	1 028 889	1 268 382	156 669	1 111 713	–



## 27. FINANCIAL INSTRUMENTS continued

## 27.3 Liquidity risk continued

R000	Carrying amount	Contractual undiscounted cash flows	Less than one year	Between one and five years	More than five years
<b>Company</b>					
<b>At 30 June 2016</b>					
<i>Non-derivative financial liabilities</i>					
Borrowings	250 000	340 642	22 645	317 997	–
BEE interest-bearing borrowings	44 120	50 671	4 374	46 297	–
BEE preference shares	397 500	420 355	12 929	407 426	–
BEE shareholder's loan	37 893	50 000	–	50 000	–
BEE B preference share dividend accrual	200 171	255 489	–	255 489	–
Trade payables	178 081	178 081	178 081	–	–
	<b>1 107 765</b>	<b>1 295 238</b>	<b>218 029</b>	<b>1 077 209</b>	<b>–</b>
<b>At 30 June 2015</b>					
<i>Non-derivative financial liabilities</i>					
Borrowings	250 000	348 545	19 741	328 804	–
BEE interest-bearing borrowings	44 120	54 402	4 122	50 280	–
BEE preference shares	412 100	447 795	11 316	436 479	–
BEE shareholder's loan	32 988	50 000	–	50 000	–
BEE B preference share dividend accrual	168 191	246 150	–	246 150	–
Trade payables	148 973	148 973	148 973	–	–
Bank overdraft	16 794	16 794	16 794	–	–
	1 073 166	1 312 659	200 946	1 111 713	–

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

27. FINANCIAL INSTRUMENTS *continued*27.3 **Liquidity risk** *continued*

The interest rate profile of the group is as follows:

R000	Group		Company	
	2016	2015	2016	2015
<i>Variable rate instruments</i>				
Assets	104 309	85 362	28 650	–
Liabilities	(711 620)	(718 236)	(691 620)	(723 014)
<i>Fixed rate instruments</i>				
Assets			62 800	62 800
Liabilities	(37 893)	(32 988)	(37 893)	(32 988)

**Cash flow sensitivity analysis for variable rate instruments**

A change of 50 basis points in the interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amount shown below. This analysis assumes that all other variables remain constant.

R000	Group		Company	
	2016	2015	2016	2015
50 bps increase	1 276	1 256	1 253	1 280
50 bps decrease	(1 276)	(1 256)	(1 253)	(1 280)

**27.4 Credit risk** – credit risk is the risk of financial loss to the group if a counterparty to a financial asset fails to meet its contractual obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all travel agents or customers requiring credit. Reputable financial institutions are used for investing and cash-handling purposes. At the reporting date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

## 27. FINANCIAL INSTRUMENTS continued

## 27.4 Credit risk continued

R000	Group		Company	
	2016	2015	2016	2015
Loan – Property Lodging Investments Proprietary Limited			<b>62 800</b>	62 800
Loan receivable	–	–	<b>34 000</b>	31 670
Other receivables	<b>24 207</b>	16 368	<b>28 383</b>	29 034
Trade receivables	<b>97 408</b>	95 934	<b>89 389</b>	90 054
Other investments	<b>56 860</b>	–		
Cash and cash equivalents	<b>104 309</b>	85 362	<b>28 650</b>	–
	<b>282 784</b>	197 664	<b>243 222</b>	213 558
The carrying amount of trade receivables represents the maximum credit exposure at reporting date which was:				
Trade receivables				
Not past due	<b>61 495</b>	52 691	<b>56 452</b>	48 584
0 – 30 days past due	<b>23 819</b>	25 570	<b>22 879</b>	24 543
31 – 120 days past due	<b>12 094</b>	17 673	<b>10 058</b>	16 927
Gross	<b>16 032</b>	22 992	<b>13 931</b>	21 844
Impairment allowance	<b>(3 938)</b>	(5 319)	<b>(3 873)</b>	(4 917)
	<b>97 408</b>	95 934	<b>89 389</b>	90 054
Trade receivables by type of customer				
Travel agents	<b>68 092</b>	76 715	<b>67 303</b>	76 626
Large corporates and companies	<b>29 316</b>	19 219	<b>22 086</b>	13 428
	<b>97 408</b>	95 934	<b>89 389</b>	90 054
Trade receivables by geographical region – South Africa	<b>89 389</b>	90 054	<b>89 389</b>	90 054
Trade receivables by geographical region – Kenya	<b>6 354</b>	4 966		
Trade receivables by geographical region – Botswana	<b>1 665</b>	914		
	<b>97 408</b>	95 934	<b>89 389</b>	90 054
The movement in the impairment allowance in respect of trade receivables during the year was as follows:				
Balance at beginning of year	<b>5 319</b>	4 035	<b>4 917</b>	3 475
Impairment allowance (reversal)/raised	<b>(1 423)</b>	1 086	<b>(1 044)</b>	1 256
Acquisitions through business combination	–	186	–	186
Foreign exchange movement	<b>42</b>	12		
Balance at end of year	<b>3 938</b>	5 319	<b>3 873</b>	4 917

**27.5 Capital management** – the group’s objective when managing capital, which consists of ordinary shares, preference shares, retained earnings and other reserves, is to safeguard the group’s ability to continue as a going concern and to provide acceptable returns for shareholders. The board of directors monitors the level of dividends to ordinary shareholders.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

**28. RELATED PARTIES****28.1 Identity of related parties with whom material transactions have occurred**

The company is the holding company of Anchor Park Investments 105 Proprietary Limited, Budget Hotels Proprietary Limited, City Lodge Hotels (Africa) Proprietary Limited, City Lodge Hotels (Botswana) Proprietary Limited, Courtyard Management Company Proprietary Limited, Fairview Hotel Limited, Gallic Courtyard (Arcadia) Share Block Proprietary Limited, Gallic Courtyard (Bruma Lake) Share Block Proprietary Limited, Gallic Courtyard (Rosebank) Share Block Limited, Gallic Courtyard (Sandown) Share Block Limited and Property Lodging Investments Proprietary Limited.

Courtyard Management Company Proprietary Limited is the management company of the Courtyard Hotels.

Budget Hotels Proprietary Limited and Property Lodging Investments Proprietary Limited lease land to City Lodge Hotels Limited.

Interest-bearing loans exist between City Lodge Hotels Limited and Property Lodging Investments Proprietary Limited.

All of the above entities are related parties to the company. Other than the directors' remuneration (refer to note 18) and information below, there are no other related parties with whom material transactions have taken place.

**28.2 Types of related-party transactions**

Management fees and operating lease rental payments have been made and interest has been received from/paid to certain related parties.

## 28. RELATED PARTIES continued

R000	Company	
	2016	2015
<b>28.3 Material related-party transactions</b>		
<b>Subsidiary companies</b>		
<b>Management fees paid to related parties</b>		
Courtyard Management Company Proprietary Limited	3 220	1 125
<b>Management fees received from related parties</b>		
City Lodge Hotels (Botswana) Proprietary Limited	1 188	1 024
<b>Operating lease rentals paid to related parties</b>		
Budget Hotels Proprietary Limited	1 879	1 789
Property Lodging Investments Proprietary Limited	24 818	22 562
	26 697	24 351
<b>Interest received from related parties</b>		
Property Lodging Investments Proprietary Limited	7 860	7 860
<b>Interest paid to related parties</b>		
City Lodge Hotels (Africa) Proprietary Limited	21 664	–
Property Lodging Investments Proprietary Limited	–	48
<b>Licence fees received from related parties</b>		
Fairview Hotel Limited	780	675

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 30 June 2016

## 28. RELATED PARTIES continued

R000	Company	
	2016	2015
<b>28.4 Loan to subsidiary</b>		
Property Lodging Investments Proprietary Limited	62 800	62 800
<b>28.5 Loan from subsidiary</b>		
City Lodge Hotels (Africa) Proprietary Limited	250 000	–
<b>28.6 Amounts due to Subsidiary companies</b>		
Budget Hotels Proprietary Limited	11 430	10 068
Property Lodging Investments Proprietary Limited	28 170	16 819
City Lodge Holdings (Share Block) Proprietary Limited	4 065	4 065
Courtyard Management Company Proprietary Limited	13 972	–
Gallic Courtyard (Arcadia) Share Block Proprietary Limited	1	1
Gallic Courtyard (Bruma Lake) Share Block Proprietary Limited	3	3
Gallic Courtyard (Rosebank) Share Block Limited	4	4
Gallic Courtyard (Sandown) Share Block Limited	3	3
	<b>57 648</b>	30 963
<b>28.7 Amounts due by Subsidiary companies</b>		
City Lodge Hotels (Africa) Proprietary Limited	4 000	–
City Lodge Hotels (Botswana) Proprietary Limited	6 696	11 039
Courtyard Management Company Proprietary Limited	–	3 195
	<b>10 696</b>	14 234

The amounts due to and by subsidiary companies are unsecured, interest-free and repayable on demand.

28. RELATED PARTIES *continued*

R000	Group		Company	
	2016	2015	2016	2015
<b>28.8 Transactions with key management</b>				
Key management, other than directors, is defined as first-line management of the company and its principal operations. First-line management largely constitutes operational executive management.				
Key management compensation is as follows (refer to note 18):				
– short-term employee benefits, including salaries and bonuses	18 114	19 014	17 444	16 330
– equity compensation benefits	2 696	3 327	2 696	2 852
	<b>20 810</b>	22 341	<b>20 140</b>	19 182

## 29. GOING CONCERN

The directors consider that the company and its subsidiaries have adequate resources to continue operating for the foreseeable future and that it is therefore appropriate to adopt the going-concern basis in preparing the group and company's financial statements. The directors have satisfied themselves that the company and its subsidiaries are in a sound financial position and that they have access to sufficient cash and borrowing facilities to meet their foreseeable cash requirements.

## 30. RELEVANT STANDARDS AND INTERPRETATIONS EFFECTIVE FOR YEARS ENDING AFTER 30 JUNE 2016

At the date of authorisation of these financial statements for the year ended 30 June 2016, the following standards and interpretations were in issue but not yet effective for the company:

	Standard/interpretation	Effective date
IAS 1	<i>Disclosure initiative</i>	1 January 2016
IAS 7	<i>Disclosure initiative</i>	1 January 2017
IFRS 15	<i>Revenue from contracts with customers</i>	1 January 2018
IFRS 9	<i>Financial instruments</i>	1 January 2018
IFRS 2	<i>Classification and measurement of share-based payment transactions</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019

All the standards listed above are applicable to the company and will be adopted on their effective dates. Management is of the view that the effects on disclosure would be minimal, and would result in some enhanced disclosure. The effects on recognition and measurement would be limited, save for the adoption of IFRS 16. IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019. The transitional requirements are different for lessees and lessors. The group and company are assessing the potential impact on the financial statements resulting from the application of IFRS 16.

## SEGMENT ANALYSIS

for the year ended 30 June 2016

The segment information has been prepared in accordance with IFRS 8 *Operating Segments* (“IFRS 8”) which defines the requirements for the disclosure of 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, fittings 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.

R000	Courtyard		City Lodge		Town Lodge		Road Lodge		Central Office and other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenue	76 703	30 491	750 948	673 846	227 583	213 594	288 272	259 356	149 657	125 825	1 493 163	1 303 112
EBITDAR	33 124	13 982	445 741	402 790	111 339	99 088	162 286	147 215	(46 930)	(48 749)	705 560	614 326
Land and hotel building rental									(84 764)	(74 781)	(84 764)	(74 781)
EBITDA											620 796	539 545
Depreciation	(4 239)	(1 148)	(21 779)	(23 165)	(6 662)	(7 494)	(11 732)	(11 930)	(51 987)	(42 643)	(96 399)	(86 380)
Results from operating activities											524 397	453 165
Share of profit from jointly controlled entities									–	1 618	–	1 618

## Geographical information

R000	South Africa		Rest of Africa		Total	
	2016	2015	2016	2015	2016	2015
Revenue	1 343 506	1 177 287	149 657	125 825	1 493 163	1 303 112
Share of profit from joint ventures	–	1 618	–	–	–	1 618
Non-current assets – property, plant and equipment	1 371 592	1 301 952	472 548	438 299	1 844 140	1 740 251

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.



# SHAREHOLDERS' ANALYSIS

as at 30 June 2016

## SHAREHOLDER SPREAD

Beneficial shareholders with holdings exceeding 1%	Number of shares owned	% of total issued shares
Enderle S.A. Proprietary Limited	3 816 479	8,79
Government Employees Pension Fund (PIC)	2 807 566	6,47
Vuwa Investments Proprietary Limited	2 556 185	5,89
The Injabulo Staff Trust*	2 556 120	5,89
Aberdeen Emerging Market Smaller Co	1 723 609	3,97
Aberdeen Institutional Commingled Funds	1 289 706	2,97
University of Johannesburg School for Tourism and Hospitality	1 278 060	2,94
Somerset Emerging Markets Small Cap Fund	968 239	2,23
Government of Norway	964 380	2,22
Old Mutual MM Satellite Equity Fund No 3	859 410	1,98
Fidelity Emerging Europe, Middle East and Africa	831 653	1,92
Fidelity Fast Emerging Markets Fund	709 335	1,63
Nedgroup Investments Entrepreneur Fund	540 000	1,24
Trustees City Lodge 10th Anniversary*	526 549	1,21
Sentinel Retirement Fund	477 043	1,10
Sanlam Capital Markets	447 824	1,03
<b>Total</b>	<b>22 352 183</b>	<b>51,48</b>

\* Non-public, which in terms of the JSE Listings Requirements includes, inter alia, the directors of the company, the trustees of any employees' share scheme and any person or entity that is interested in 10% or more of a particular class of securities.

Investment management shareholdings exceeding 3%	Total shareholding	%
City Lodge Hotels BEE SPVs	6 390 365	14,72
Aberdeen Asset Management Group	4 177 178	9,62
Enderle H R	3 816 479	8,79
Melville Douglas Investment Management	2 433 568	5,61
PIC	2 424 626	5,59
Abax Investments	1 883 004	4,34
Prudential Investment Managers	1 827 572	4,21
Fidelity International Limited	1 786 540	4,12
J.P. Morgan Asset Management	1 652 465	3,81
<b>Total</b>	<b>26 391 797</b>	<b>60,80</b>

## SHAREHOLDERS' ANALYSIS CONTINUED

as at 30 June 2016

## SHAREHOLDER SPREAD

Shareholder spread	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	8 082	80,43	1 425 446	3,28
1 001 – 10 000 shares	1 704	16,96	4 763 394	10,97
10 001 – 100 000 shares	204	2,03	5 129 711	11,82
100 001 – 1 000 000 shares	49	0,49	13 385 420	30,84
1 000 001 shares and above	9	0,09	18 702 782	43,09
<b>Total</b>	<b>10 048</b>	<b>100,0</b>	<b>43 406 753</b>	<b>100,00</b>

## PUBLIC AND NON-PUBLIC SHAREHOLDINGS

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
<b>Non-public shareholders</b>	165	1,64	10 008 564	23,06
– Directors	3	0,03	370 408	0,86
– Other	162	1,61	9 638 156	22,20
Public shareholders	9 883	98,36	33 398 189	76,94
<b>Total</b>	<b>10 048</b>	<b>100,0</b>	<b>43 406 753</b>	<b>100,0</b>

## GEOGRAPHIC SPLIT OF BENEFICIAL SHAREHOLDERS

Region	Total shareholding	% of issued capital
South Africa	29 668 307	68,28
United States of America and Canada	3 896 983	8,96
United Kingdom	1 375 356	3,17
Rest of Europe	6 460 147	14,88
Rest of world	2 005 960	4,71
<b>Total</b>	<b>43 406 753</b>	<b>100,00</b>

## MEMBERS' DIARY

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**FINANCIAL YEAR-END**30 June

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**ANNUAL GENERAL MEETING**November

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**REPORTS**

Announcement of results for the half-year

February

Announcement of annual results

August

Annual financial statements

September

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**DIVIDENDS**

Declaration

Interim

February

Final

August

Payment

Interim

March/April

Final

September/October

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# NOTICE OF ANNUAL GENERAL MEETING

Registration number: 1986/002864/06

Share code: CLH ISIN: ZAE000117792

Notice is hereby given to shareholders recorded in the company's securities register on 9 September 2016, that the thirtieth annual general meeting of shareholders of City Lodge Hotels Limited will be held at The Lodge, Bryanston Gate Office Park, corner Homestead Avenue and Main Road, Bryanston on Thursday, 10 November 2016 at 14:00 for purposes of dealing with the following business and considering and, if deemed fit, passing with or without modification, the resolutions set out hereunder.

Meeting participants (including shareholders and proxies) are, in accordance with the provisions of section 63(1) of the Companies Act, 71 of 2008 ("the Act") required to provide reasonably satisfactory identification before being entitled to attend or participate in the shareholders' meeting. Acceptable forms of identification include valid identity documents issued by the Department of Home Affairs, driver's licences and passports.

## IMPORTANT DATES AND TIMES

### **Record date for attending and voting at the meeting ("meeting record date") Friday, 4 November 2016.**

Last day for shareholders to lodge forms of proxy by 14:00 on Tuesday, 8 November 2016.

AGM to be held at 14:00 on Thursday, 10 November 2016.

Announce results of AGM on SENS on Friday, 11 November 2016.

## AS ORDINARY BUSINESS

- 1.** To present the consolidated audited annual financial statements for the year ended 30 June 2016 (as set out on pages 90 to 148 of the Integrated Report), together with the directors' and external auditors' reports and the reports of the audit committee and social and ethics committee, as distributed.
- 2. Ordinary resolution number 1: Re-appointment and re-election of directors**  
To elect the following directors, who were appointed during the year and those who retire in accordance with the provisions of the Act and the company's memorandum of incorporation ("Mol"), and who are eligible and available for re-appointment or re-election, as may be applicable.

Ordinary resolution number 1.1 "RESOLVED THAT Mr V M Rague, who was first appointed to the board on 1 January 2016, be and is hereby re-appointed as a director of the company."

Ordinary resolution number 1.2 "RESOLVED THAT Ms S Marutlulle, who was first appointed to the board on 1 October 2016, be and is hereby re-appointed as a director of the company."

To elect, by way of a series of votes, the following directors who retire by rotation in accordance with the provisions of the Act, and the company's Mol, and who, being eligible, offer themselves for re-election:

Ordinary resolution number 1.3 "RESOLVED THAT Ms N Medupe be and is hereby re-elected as a director of the company".

Ordinary resolution number 1.4 "RESOLVED THAT Mr S G Morris be and is hereby re-elected as a director of the company".

Ordinary resolution number 1.5 "RESOLVED THAT Mr B T Ngcuka be and is hereby re-elected as a director of the company".

Brief biographies in respect of each retiring director appear on pages 34, 35 and 63 of the Integrated Report.

**3. Ordinary resolution number 2: Re-appointment of external auditor**

Upon the recommendation of the audit committee to re-appoint KPMG Inc. as the independent auditors of the company for the ensuing year to hold office until the next annual general meeting, with Mr Nico Botha as the designated partner and to authorise the audit committee to determine the auditors' terms of engagement and remuneration.

"RESOLVED THAT KPMG Inc. be and are hereby re-appointed as the auditors of the company for the ensuing year, with Mr Nico Botha as the designated partner and that the audit committee be and is hereby authorised to determine the auditors' terms of engagement and remuneration."

**4. Ordinary resolution number 3: Appointment of group audit committee members**

To elect, by way of a series of votes, and subject, where necessary, to their re-election as directors of the company in terms of ordinary resolution 1 above, the following independent non-executive directors as members of the audit committee to hold office until the next annual general meeting:

Ordinary resolution number 3.1 "RESOLVED THAT Mr S G Morris be and is hereby elected as a member and the chairman of the audit committee".

Ordinary resolution number 3.2 "RESOLVED THAT Mr G G Huysamer be and is hereby elected as a member of the audit committee".

Ordinary resolution number 3.3 "RESOLVED THAT Mr F W J Kilbourn be and is hereby elected as a member of the audit committee".

Ordinary resolution number 3.4 "RESOLVED THAT Ms N Medupe be and is hereby elected as a member of the audit committee".

As special business, to consider and, if deemed fit, to pass, with or without modification, the following resolutions:

**5. Ordinary resolution number 4: Signature of documents**

"RESOLVED THAT any one director and/or the group company secretary be and is hereby authorised to do all such things and sign all such documents and take all such action as they consider necessary to implement all the resolutions set out in this notice convening this annual general meeting at which this ordinary resolution will be considered."

**6. Endorsement of remuneration policy**

To endorse, through a non-binding advisory vote, to ascertain the shareholders' view, the company's remuneration policy (excluding the remuneration of the non-executive directors) and its implementation, as set out in the remuneration report contained on pages 76 to 88 of the Integrated Report.

In terms of the King III Report, an advisory vote on the company's remuneration policy should be obtained from shareholders. The vote allows shareholders to express their views on the remuneration policies adopted and the implementation thereof, but will not be binding on the company.

## NOTICE OF ANNUAL GENERAL MEETING CONTINUED

**7. Special resolution number 1: Approval of non-executive directors' remuneration**

"RESOLVED THAT the remuneration payable to non-executive directors be approved as follows:

1 July 2016 to 30 June 2017 (R)	Annual fee payable with effect from 1 July 2016	Hourly rate payable with effect from 1 July 2016
Chairman of the board	890 000	
Services as lead independent director	286 000	
Services as a director	220 000	
Chairman of the audit committee	155 500	
– Other audit committee members	71 600	
Chairman of the remuneration committee	137 400	
– Other remuneration committee members	61 500	
Chairman of the risk committee	106 500	
– Other risk committee members	48 100	
Chairman of the social and ethics committee	69 600	
Ad hoc/temporary committee		1 890
		<b>capped at 37 485</b>

The reason for and effect of the proposed resolution is to ensure that the level of fees paid to non-executive directors remains market-related and accords with the greater accountability and risk attached to the position.

The reason for proposing an ad hoc/temporary committee fee over and above the remuneration ordinarily paid to the non-executive directors, is to set a fee for participating in an ad hoc/temporary committee should circumstances necessitate the formation of one to consider a specific issue falling outside the scope of existing committees.

The board, on the recommendation of the remuneration and nominations committee, which in turn considered executive management's recommendation in this regard has accepted the fees proposed in special resolution number 1 and recommends the same for approval by shareholders.

Refer to page 122 for full particulars on the remuneration paid to non-executive directors during the year under review and to the remuneration report on pages 76 to 88 of the Integrated Report for further detail on the company's remuneration practices.

#### 8. Special resolution number 2: Financial assistance

“RESOLVED THAT: to the extent required by sections 44 and/or 45 of the Act, the board of the company may, subject to compliance with the requirements of the company’s MoI, the Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the company to provide direct or indirect financial assistance in such amounts as the board of the company may from time to time resolve, by way of loan, guarantee, the provision of security or otherwise, to:

- (i) any of its present or future subsidiaries and/or any other company or entity that is or becomes related or inter-related to the company, for any purpose or in connection with any matter, including, but not limited to, the subscription of any option, or any securities issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company; and/or
- (ii) any person who is a participant in any of the company’s share or other employee incentive scheme, for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company, where such financial assistance is provided in terms of any such scheme that does not satisfy the requirements of section 97 of the Act, at any time during the period commencing on the date of the passing of this resolution and ending on the next annual general meeting.”

#### *The reason for and the effect of special resolution number 2*

Notwithstanding the title of section 45 of the Act, being “Loans or other financial assistance to directors”, on a proper interpretation, the body of the section also applies to financial assistance provided by a company to any related or inter-related company or corporation, a member of a related or inter-related corporation and to a person related to any such company, corporation or member.

Further, section 44 of the Act may also apply to the financial assistance so provided by a company to any related or inter-related company or corporation, a member of a related or inter-related corporation, or a person related to any such company, corporation or member, in the event that the financial assistance is provided for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the company or a related or inter-related company, or for the purchase of any securities of the company or a related or inter-related company.

Both sections 44 and 45 of the Act provide, inter alia, that the particular financial assistance must be provided only pursuant to a special resolution of shareholders, adopted within the previous 2 (two) years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board is satisfied that:

- (i) immediately after providing the financial assistance, the company would satisfy the solvency and liquidity test (as contemplated in the Act); and
- (ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the company.

## NOTICE OF ANNUAL GENERAL MEETING CONTINUED

As part of the normal conduct of the business of the group, the company, where necessary, usually provides guarantees and other support undertakings to third parties which enter into financial agreements with its local and foreign subsidiaries and joint ventures or partnerships in which the company or members of the group have an interest. This is particularly so where funding is raised by the foreign subsidiaries of the company, whether by way of borrowings or the issue of bonds or otherwise, for the purposes of the conduct of their operations. In the circumstances and in order to, inter alia, ensure that the company and its subsidiaries and other related and inter-related companies and entities continue to have access to financing for purposes of refinancing existing facilities and funding their corporate and working capital requirements, it is necessary to obtain shareholder approval as set out in this special resolution number 2. The company would like the ability to continue to provide financial assistance, if necessary, also in other circumstances, in accordance with section 45 of the Act.

Furthermore, it may be necessary for the company to provide financial assistance to any of its present or future subsidiaries, and/or to any related or inter-related company or corporation, and/or to a member of a related or inter-related company, to subscribe for options or securities of the company or another company-related or inter-related to it. Under the Act, the company will require a special resolution referred to above to be adopted.

Accordingly, the approval of shareholders is sought to ensure that the company, its subsidiaries and other related and inter-related companies is able to effectively organise its internal financial administration.

**9. Special resolution number 3: General authority to repurchase shares**

“RESOLVED THAT the company is hereby authorised by way of a general authority to acquire ordinary shares in the share capital of the company subject to the provisions of the Act and the JSE Listings Requirements, provided:

- the general authority shall be valid only until the next annual general meeting or for 15 months from the date of this special resolution, whichever period is shorter;
- the repurchase being effected through the order book operated by the JSE trading system, without prior understanding or arrangement between the company and the counterparty;
- the company being authorised thereto by its Mol;
- repurchases not being made at a price greater than 10% (ten percent) above the weighted average of the market value of the shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- an announcement being published as soon as the company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the initial number of ordinary shares, and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing full details of such repurchases;
- repurchases not exceeding 20% (twenty percent) in aggregate of the company’s issued ordinary share capital in any one financial year;
- the company’s sponsor confirming the adequacy of the company’s working capital for purposes of undertaking their purchase of shares in writing to the JSE upon entering the market to proceed with the repurchase;
- the company remaining in compliance with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread after such repurchase;
- the company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the prohibited period are fixed and full details of the programme have been announced on SENS prior to the commencement of the prohibited period;
- the company only appointing one agent to effect any repurchases on its behalf; and
- a resolution is passed by the board authorising the repurchase, that the company and its subsidiaries have passed the solvency and liquidity test and that since performing the test there have been no material changes to the financial position of the company.”



The directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the foregoing general authority, are of the opinion that for a period of 12 (twelve) months after the date of the notice of the annual general meeting:

- the company and its subsidiaries will be able, in the ordinary course of business, to pay its debts;
- the consolidated assets of the company and its subsidiaries, fairly valued in accordance with generally accepted accounting practice, will exceed the consolidated liabilities of the company; and
- the company and its subsidiaries' ordinary share capital, reserves and working capital will be adequate for ordinary business purposes.

The following additional information, some of which may appear elsewhere in the Integrated Report, is provided in terms of section 11.26 of the JSE Listings Requirements for purposes of this general authority:

- directors and management – pages 34 to 37;
- major beneficial shareholders – page 149;
- directors' interests in ordinary shares – page 95; and
- share capital of the company – page 116.

#### Litigation statement

The directors, whose names appear on pages 34 and 35 of the Integrated Report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had a material effect on the group's financial position in the 12 (twelve) months preceding the date of this notice of annual general meeting.

#### Directors' responsibility statement

The directors, whose names appear on pages 34 and 35 of the Integrated Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this special resolution and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolution contains all information.

#### Material changes

Other than the facts and developments reported on in the annual financial statements, there have been no material changes in the affairs, financial or trading position of the company and its subsidiaries since the date of signature of the Integrated Report and up to the date of posting.

#### *Reason for and effect of special resolution number 3*

The reason for and effect of the special resolution is to grant the company and its subsidiaries a general authority in terms of the Act and the JSE Listings Requirements to acquire shares in the company.

The general authority is also required by the company to perform its settlement obligations to employees participating in the company's various share or employee incentive schemes.

The board has no specific intention, at present, for the company to repurchase any of its shares but considers it necessary in order that it can avail itself of the authority should an opportunity present itself during the year, which the board deems to be in the best interests of the company and its shareholders, taking prevailing market conditions and other factors into consideration.

## NOTICE OF ANNUAL GENERAL MEETING CONTINUED

**VOTING AND PROXIES**

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend, speak and vote in his stead.

A proxy need not be a shareholder of the company.

The form of proxy is only to be completed by those shareholders who are: holding shares in certificated form; or recorded on the sub-register in dematerialised form in “own name”, and is attached for convenience.

All other beneficial owners who have dematerialised their shares through a CSDP or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a letter of representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and the CSDP or broker.

Proxy forms are requested to be forwarded to reach the company’s transfer secretaries by not later than 14:00 on Tuesday, 8 November 2016. The completion of a proxy form will not preclude a shareholder from attending the annual general meeting.

**ELECTRONIC PARTICIPATION**

The company intends to offer shareholders or their proxy’s reasonable access to attend the annual general meeting through electronic conference call facilities, in accordance with the provisions of the Act. In the event that a shareholder or his/her proxy wishes to participate electronically in the annual general meeting, he/she is required to deliver written notice to the company at City Lodge Hotels Limited, Bryanston Gate Office Park, Building 7 (“The Lodge”), corner Homestead Avenue and Main Road, Bryanston, alternatively [mvanheerden@clhg.com](mailto:mvanheerden@clhg.com), marked for the attention of Mrs Melanie van Heerden, the company secretary, by no later than 14:00 on 3 November 2016 that he/she wishes to participate via electronic communication at the AGM (“the electronic notice”). In order for the electronic notice to be valid it must contain: (a) if the shareholder is an individual, a certified copy of his identity document and/or passport; (b) if the shareholder is not an individual, a certified copy of a resolution by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution, which resolution must set out who from the relevant entity is authorised to represent the relevant entity at the annual general meeting via electronic communication; and (c) a valid email address and/or facsimile number (“the contact address/number”).

Voting on shares will not be possible via electronic communication and accordingly shareholders participating electronically and wishing to vote their shares at the annual general meeting will need to be represented at the annual general meeting, either in person, by proxy or by letter of representation. The company shall use its reasonable endeavours on or before 14:00 on 7 November 2016 to notify a shareholder, who has delivered a valid electronic notice, at its contact address/number, of the relevant details through which the shareholder can participate via electronic communication. The company reserves the right not to provide for electronic participation at the annual general meeting in the event that it determines that it is not practical to do so, or an insufficient number of shareholders or proxies request to so participate.

The cost of participating through the electronic conference call facilities will be for the account of the shareholder or his/her proxy.

By order of the board

**M C van Heerden**

*Group company secretary*

Bryanston  
19 September 2016

# FORM OF PROXY – CITY LODGE HOTELS LIMITED

For use at the twenty-ninth annual general meeting of members to be held on Thursday, 10 November 2016 at The Lodge, Bryanston Gate Office Park, corner Homestead Avenue and Main Road, Bryanston, at 14:00.

I/we, the undersigned

of \_\_\_\_\_  
being the registered holder/s of \_\_\_\_\_ ordinary shares

hereby appoint

or failing him,

or failing them, the chairman of the meeting as my/our proxy to act for me/us and vote for me/us on my/our behalf as indicated below at the annual general meeting of the company to be held on Thursday, 10 November 2016 at 14:00 and at any adjournment thereof.

		In favour of	Against	Abstain
1.	Adoption of the annual financial statements			
2.	Ordinary resolution 1 – Re-appointment and re-election of retiring directors			
2.1	Mr V M Rague			
2.2	Ms S Marutlulle			
2.3	Ms N Medupe			
2.4	Mr S G Morris			
2.5	Mr B T Ngcuka			
3.	Ordinary resolution 2 – To reappoint KPMG Inc. as the independent auditors of the company for the ensuing year with N Botha as the engagement partner and to authorise the directors to determine the auditors' remuneration			
4.	Ordinary resolution 3 – Appointment of group audit committee members			
4.1	Mr S G Morris			
4.2	Mr G G Huysamer			
4.3	Mr F W J Kilbourn			
4.4	Ms N Medupe			
5.	Ordinary resolution 4 – Signature of documents			

		In favour of	Against	Abstain
6.	Endorsement of remuneration policy			
7.	Special resolution 1 – Approval of non-executive directors' remuneration			
7.1	Chairman (inclusive of all board and committee roles)			
7.2	Lead independent director			
7.3	Services as director			
7.4	Chairman of audit committee			
7.5	Other audit committee members			
7.6	Chairman of remuneration and nominations committee			
7.7	Other remuneration and nominations committee members			
7.8	Chairman of risk committee			
7.9	Other risk committee members			
7.10	Chairman of social and ethics committee			
7.11	Ad hoc/temporary committee			
8.	Special resolution 2 – Financial assistance			
9.	Special resolution 3 – General authority to repurchase shares			

Signature \_\_\_\_\_

Date \_\_\_\_\_

Assisted by me (where applicable) \_\_\_\_\_

## FORM OF PROXY – CITY LODGE HOTELS LIMITED CONTINUED

1. This form of proxy is to be completed only by certificated shareholders or dematerialised shareholders whose shares are recorded in their “own name”.
2. Shareholders whose dematerialised shares are held in the name of a nominee and who wish to attend the annual general meeting must contact their Central Securities Depository Participant (“CSDP”) or broker who will furnish them with the necessary letter of authority to attend the annual general meeting. Alternatively they have to instruct their CSDP or broker as to how they wish to vote. This must be done in terms of the agreement between the shareowner and the CSDP or the broker.
3. Shareholders who wish to attend and vote at the meeting must ensure that their letters of authority from their CSDP or broker reach the transfer secretaries, Computershare Investor Services Proprietary Limited (“Computershare”) by no later than 14:00 on Tuesday, 8 November 2016.
4. Each shareholder is entitled to appoint a proxy (who need not be a shareholder of the company) to attend, speak and vote (either on a poll or by show of hands) in place of that shareholder at the annual general meeting.
5. A shareholder may insert the name of a proxy of the shareholder’s choice in the space provided, with or without deleting “the chairman of the meeting”. All deletions must be individually initialled by the shareholder, failing which they will not have been validly effected. Should a proxy not be specified, this will be exercised by the chairman of the annual general meeting. The person whose name appears first on the form of proxy and who is present at the annual general meeting shall be entitled to act as proxy to the exclusion of the persons whose names follow.
6. Voting instructions for each of the resolutions must be completed by filling in an “X”, alternatively the number of votes (one per ordinary share) under the “In favour of”, “Against” or “Abstain” headings on the form of proxy. If no instructions are filled in on the form of proxy, the chairman of the annual general meeting, if the chairman is the authorised proxy, or any other proxy shall be authorised to vote in favour of, against or abstain from voting as he/she deems fit.
7. A shareholder or his/her proxy is entitled but not obliged to vote in respect of all the ordinary shares held by the shareholder. The total number of votes for or against the resolutions and in respect of which any abstention is recorded may, however, not exceed the total number of shares held by the shareholder.
8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by Computershare or waived by the chairman of the annual general meeting.
9. The chairman of the annual general meeting may reject or accept any form of proxy that is completed and/or received other than in accordance with these instructions and notes.
10. Any alterations or corrections to this form of proxy must be initialled by the signatory(ies).
11. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person instead of the duly appointed proxy.
12. Form of proxy must be received by Computershare, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), by no later than 14:00 on Tuesday, 8 November 2016.
13. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by Computershare.
14. A proxy may not delegate his/her authority to act on behalf of the shareholder to another person.

# ADMINISTRATION

## City Lodge Hotels Limited

Incorporated in the Republic of South Africa

Registration number 1986/002864/06

ISIN: ZAE 000117792 Share code: CLH

## Directors

B T Ngcuka (Chairman), C Ross (Chief executive)\*,

F W J Kilbourn, G G Huysamer, N Medupe, S G Morris,

V M Rague<sup>†</sup> Dr K I M Shongwe, A C Widegger\*

*\*Executive † Kenyan*

## Company secretary

M C van Heerden

## Registered office

The Lodge

Bryanston Gate Office Park

Corner Homestead Avenue and Main Road

Bryanston, 2191

PO Box 97

Cramerview, 2060

Telephone: +27 11 557 2600

Facsimile +27 11 557 2601

Email: [info@clhg.com](mailto:info@clhg.com)

Websites: [www.clhg.com](http://www.clhg.com)

[www.bid2stay.co.za](http://www.bid2stay.co.za)

## Transfer secretaries

Computershare Investor Services Proprietary Limited

70 Marshall Street

Johannesburg, 2001

PO Box 61051

Marshalltown, 2107

## Auditors

KPMG Inc.

## Bankers

The Standard Bank of South Africa Limited

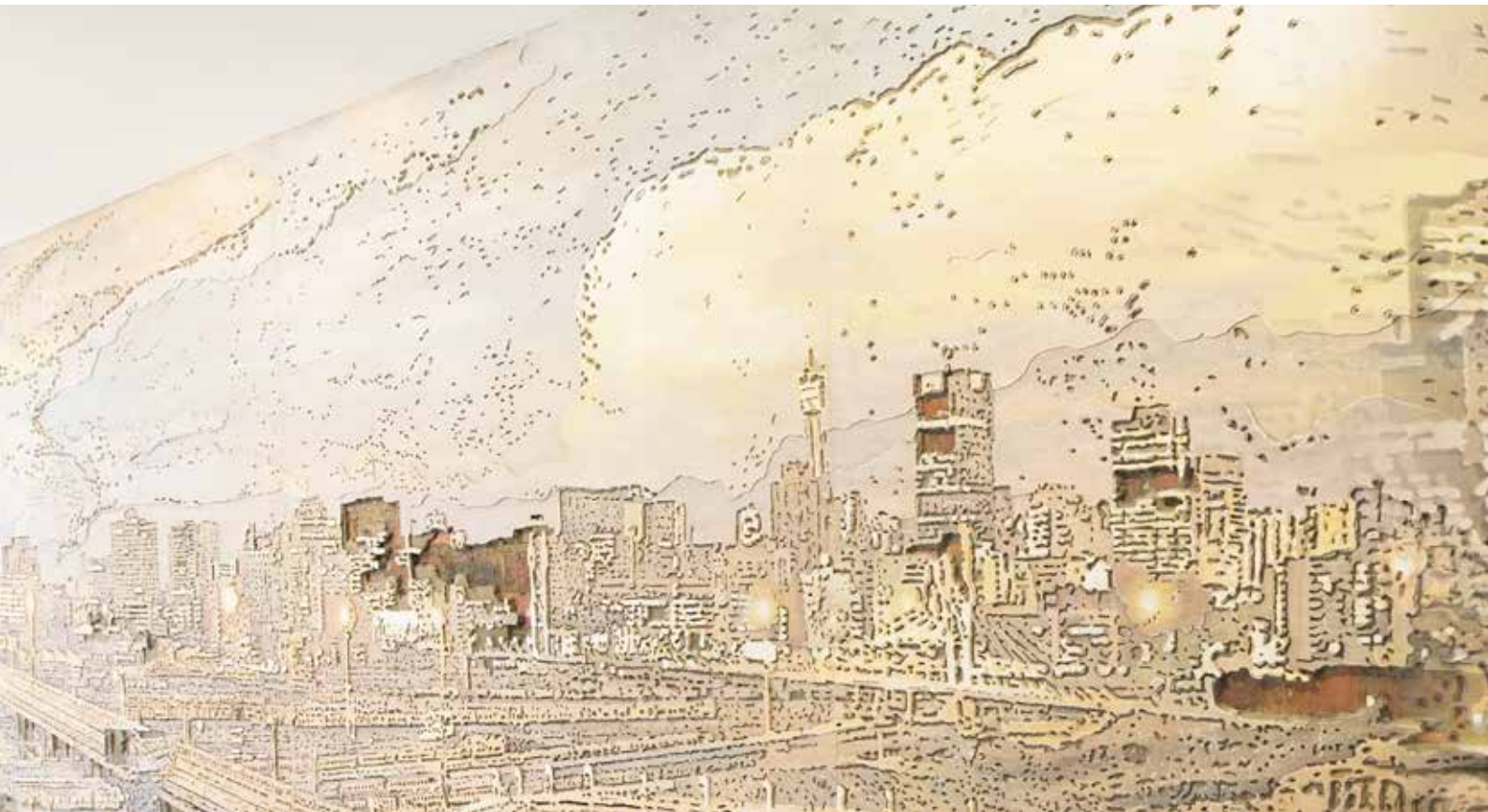
## Attorneys

Edward Nathan Sonnenbergs

## Sponsor

J P Morgan Equities South Africa Proprietary Limited

The Lodge  
Bryanston Gate Office Park  
Corner Homestead Avenue and Main Road  
Bryanston, 2191  
Telephone: +27 11 557 2600 Facsimile +27 11 557 2601  
[www.clhg.com](http://www.clhg.com)



CITY LODGE HOTEL GROUP