CITY LODGE HOTELS LIMITED

CONDENSED UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

for the six months ended 31 December 2021

#staysafe

Caring comes from the heart

Average group occupancies

30%

2021: 17%

Revenue

R436.0m

2021: R215.6m

Loss per share

6c

2021: 128c

Headline loss per share

6c

2021: 60c

Average occupancies open hotels

Group

34%

2021: 27%

SA

36%

2021: 29%

Commentary

The new financial year had a particularly tumultuous start due to the severe third wave of Covid-19 infections and hospitalisations caused by the Delta variant. This caused travel hesitancy, and the level 4 lockdown restrictions, which banned leisure travel to and from Gauteng during the key winter school holiday period. The violent civil unrest in South Africa in July increased the negative impact on trading operations over this period. Gratefully, the group suffered no property damage as a result of the protests in Kwa-Zulu Natal, however, the majority of the hotels in the area closed temporarily due to safety concerns and lack of fuel and food supplies, and resumed trading as soon as the situation stabilised.

As infection rates steadily declined, travel confidence returned. This positively impacted occupancies and pricing, and resulted in additional hotel re-openings. The gradual easing of restrictions, the accelerated roll-out of vaccinations across all adult groups including young adults, and the removal of South Africa from international 'no-fly' and 'red lists', boosted business and leisure travel confidence.

Average occupancies for the interim period at our South African operations, based on total hotel room inventory, was 32%, with the low of 16% in July 2021 and a high of 43% in November 2021. The discovery of the Omicron variant in South Africa in late November 2021, and the almost overnight shut-down of international travel routes to South Africa, resulted in a setback in demand, which was substantially picked up by the domestic leisure market. December 2021 occupancies for South African open hotels averaged 43% with 53 hotels open, and 5 hotels open in the Rest of Africa.

Cost containment measures applied since April 2020, continue to be enforced, where appropriate, to help preserve and improve liquidity. We are grateful that, even during these turbulent and challenging times, our employees remain dedicated to providing outstanding service to all our guests, as our Rate Us and other feedback forums have registered our highest scores.

Financial review

The steady improvement in occupancies and demand for hospitality services over the last few months has led to average group occupancies for all hotels in the group of 30% for the six-month period to December 2021 (December 2020: 17%) and open hotels 34% (December 2020: 27%). As at December 2021 the group had 92% of the hotels in its portfolio of hotels open, compared to 74% in the prior period.

Total revenue for the period doubled to R436 million compared to R215.6 million for the prior period. Operating costs excluding depreciation and amortisation decreased by 11%, compared to the prior six months, however, excluding unrealised foreign exchange gains and losses on intercompany loans, increased by 40%. Increases were mainly due to the raising of reduced salaries paid in the early stages of the pandemic from 50%, up to 70% from November 2020, and then further increased to 75% from November 2021. Operating costs per room sold excluding unrealised foreign exchange gains and losses reduced by 22% compared to the prior year. The group supported and enabled the UIF TERS claims, which provided necessary support to employees to alleviate the financial burden of reduced salaries.

Commentary continued

As more hotels open and occupancy increases, the variable operating costs increase to enable continued operations. The group generated profit from operating activities before interest, tax, depreciation and amortisation (EBITDA) for the six months to December 2021 of R122.6 million compared to an EBITDA loss in the prior period of R131.7 million.

Depreciation and amortisation on owned assets decreased by 26%, mainly due to discontinuation of depreciation on held for sale assets, and the impact of impairment losses recognised in prior periods. Depreciation on right-of-use assets increased by 16%, mainly due to the opening of the leased Courtyard Hotel Waterfall City in March 2021. No impairments have been recognised during the period. Interest expense decreased by R10.9 million following settlement of the BEE debt in December 2020.

The group incurred a net loss after tax for the six months ended 31 December 2021 of R33.7 million (2021: R550.4 million), a decrease of 94% from the prior year.

Headline loss decreased by 88% to R33.7 million. Diluted and undiluted headline loss per share improved by 90% to a loss of 6 cents compared to an adjusted loss of 60 cents in the prior period.

The group has generated positive cash flows from operating activities of R13.1 million, after taking into consideration the offsetting impact of the increase in working capital of R45.1 million from increased trading activity, and settlement of accruals associated with the Courtyard Hotel Waterfall City fit-out. This is compared to negative cash flows from operations of R68.9 million in the prior period.

The results above include the operational performance of the disposal groups in Kenya and Tanzania. The disposals are subject to the fulfilment of customary conditions precedent, which includes approvals or consents from competition on anti-trust authorities to the extent legally required. By the end of January 2022 the transaction received the unconditional approval from the competition commissions in Kenya and Tanzania. Due to the delays in the competition commission approvals, the long stop dates have been extended to 31 May 2022. However, the remaining conditions precedent are in the process of execution, and it is anticipated that the sale will complete by the end of April 2022.

R320 million of the total outstanding interest-bearing borrowings are due for repayment within the next 12 months. The proceeds from the disposal of the East African operations are planned to be utilised to settle the debt. All original debt covenants have been waived for all measurement periods up to and including September 2022. The new loan to value covenant has been met for all measurement periods during the reporting period. The group has engaged with funders to commence discussions to restructure its debt facilities following settlement of the loans due in September and December 2022.

Strategic developments

Over the last few months we have honed and rolled out its enhanced food and beverage offers, which is bespoke to each hotel brand within the group. The enhanced offering has helped attract more leisure, 'bleisure', staycation and special holiday events business, and gives guests more reason to stay in their hotel rather than dine out.

Guests have received the enhanced offering with enthusiasm and appetite. Food and beverage revenue has increased by 128% compared to the prior year.

The group offers regular special rates and seasonally themed promotions, often with a food and beverage element, designed to appeal to leisure travellers, in particular. Business travellers are catered for with value-added benefits when booking boardrooms and making use of our facilities for meetings.

Our Best Available Rate (BAR) initiative, which went live in June 2021, considers market trends and demands for accommodation to calculate the best rates for our guests, rather than applying a single rate philosophy. This benefits our guests by providing them with more competitively priced accommodation at all times, while optimising revenue yields for the group.

For this purpose, we are leveraging predictive analytics and machine learning to inform our pricing decisions. Our new BI tool helps to analyse key clients, track new business and personalise offerings for guests, corporate clients and agents.

Despite the unwind and indirect repurchase of the B-BBEE shares, and the challenging financial conditions that focused all available resources on ensuring the sustainability of the group, we secured a B-BBEE level 5 rating. As the group recovers from the detrimental impact of the last two years of Covid, we are reinvesting in transformation initiatives, which should aid in securing an improved B-BBEE scorecard in the next reporting cycle.

Directorate

The group welcomes Andrew Lapping as a new member of the board, remuneration committee and audit committee following his appointment at the last Annual General Meeting (AGM) held on 25 November 2021.

The group would also like to thank Vincent Rague, for his many years of loyal service and valued contributions to the board and group, following his retirement at the last AGM.

Outlook

South Africa has remained on Covid-19 alert level 1 since 1 October 2021, and on 30 December 2021 government further removed all curfew and alcohol restrictions. Internationally, there has been a move by some countries in Europe towards removing almost all Covid-19 mandates and restrictions. These developments have been in response to the significantly reduced severity of infections, hospitalisations and deaths among fully vaccinated individuals during the fourth wave of infections.

January 2022 occupancies had a slow start with total group occupancies at 30%, however demand has gained momentum as more corporates and government departments return to their offices and travel schedules resume to re-ignite operational capacity which has lagged over the past two years. The group has re-opened all its 56 South African hotels, and has six of the seven hotels opened in Rest of Africa. To date, for the month of February 2022, South African occupancies are running at 46%. We anticipate improved monthly occupancy and pricing recovery during the next two trading quarters.

The group looks forward to the anticipated completion of the disposal of its East Africa operations before the end of April 2022. The proceeds will be applied to strengthen our financial position and enable us to resume hotel refurbishment plans.

The CLHG family remains committed to providing outstanding accommodation services and welcoming our guests to tantalise their taste buds with our new food and beverage offerings.

Condensed consolidated statement of financial position

R000	Note	As at 31 December 2021	As at 31 December 2020	Audited Year ended 30 June 2021
ASSETS				
Non-current assets		**2 681 146**	3 152 305	2 739 988
Property, plant and equipment		**1 659 409**	2 112 174	1 671 924
Right-of-use assets		**953 640**	913 148	998 262
Intangible assets and goodwill		**37 125**	54 128	39 900
Investments		**800**	800	800
Deferred taxation	7	**30 172**	72 055	29 102
Current assets		**605 641**	216 343	613 494
Inventories		**4 141**	4 960	3 296
Trade receivables		**31 544**	22 242	17 586
Other receivables		**108 654**	128 617	95 639
Taxation		**667**	41 243	37 531
Other investments		**–**	6 620	–
Cash and cash equivalents		**4 027**	12 661	5 477
		149 033	216 343	159 529
Assets held for sale	4	**456 608**	–	453 965
Total assets		**3 286 787**	3 368 648	3 353 482
EQUITY				
Capital and reserves		**861 442**	1 177 231	936 357
Stated capital		**1 324 717**	1 324 961	1 324 717
Treasury shares		**(507 669)**	(514 381)	(510 928)
Other reserves		**68 188**	265 081	112 611
Retained earnings		**(23 794)**	101 570	9 957
LIABILITIES				
Non-current liabilities		**1 759 875**	1 965 652	2 043 884
Interest-bearing borrowings	5	**400 000**	530 000	650 000
Lease liabilities	6	**1 353 350**	1 350 520	1 365 591
Deferred taxation	7	**6 525**	85 132	28 293
Current liabilities		**665 470**	225 765	373 241
Interest-bearing borrowings	5	**320 000**	–	–
Trade and other payables		**162 321**	160 121	175 372
Lease liabilities	6	**24 903**	17 727	24 516
Bank overdraft		**66 632**	47 917	89 651
		573 856	225 765	289 539
Liabilities directly associated with assets held for sale	4	**91 614**	–	83 702
Total liabilities		**2 425 345**	2 191 417	2 417 125
Total equity and liabilities		**3 286 787**	3 368 648	3 353 482

As at 31 December 2021, the directors had authorised a total of R142.5 million for maintenance and expansion capital items, of which R27.2 million is committed. R8.5 million of the committed capital expenditure has been contracted. The remaining R115.3 million of authorised spend has been put on hold and subject to internal quarterly liquidity reviews.

Condensed consolidated statement of comprehensive income

R000	Note	Six months ended 31 December 2021	% Change	Six months ended 31 December 2020	Audited Year ended 30 June 2021
Revenue	8	**436 012**	102	215 605	507 816
Other income		**2 162**		647	2 173
Administration and marketing costs		**(39 231)**		(36 360)	(74 640)
B-BBEE transaction charges		**–**		(7)	(1 223)
Expected credit loss on trade and other receivables		**(209)**		(796)	(2 215)
Operating costs excluding depreciation and amortisation		**(276 142)**	(11)	(310 772)	(570 407)
Profit/(loss) from operating activities before depreciation and amortisation		**122 592**	(193)	(131 683)	(138 496)
Depreciation and amortisation		**(45 729)**		(61 916)	(119 959)
Depreciation – right-of-use assets		**(45 516)**		(39 380)	(85 894)
Results from operating activities		**31 347**	(113)	(232 979)	(344 349)
Net impairment loss on property, plant and equipment		**–**		(269 603)	(390 443)
Disposal groups held for sale		**–**		–	(299 967)
Other		**–**		(269 603)	(90 476)
Impairment reversal/(loss) on right-of-use assets		**–**		(24 251)	48 945
Disposal groups held for sale		**–**		–	22 595
Other		**–**		(24 251)	26 350
Impairment loss on goodwill		**–**		–	(10 602)
Impairment loss on other receivables		**–**		–	(25 879)
Impairment loss on disposal group		**–**		–	(9 600)
Interest income		**597**	(91)	6 893	7 746
Interest expense		**(89 614)**	(11)	(100 494)	(177 415)
Interest expense		**(26 061)**		(18 882)	(39 756)
Interest expense – leases		**(63 553)**		(62 984)	(119 031)
BEE interest expense		**–**		(1 417)	(1 417)
BEE preference dividend		**–**		(17 211)	(17 211)
Loss before taxation		**(57 670)**	(91)	(620 434)	(901 597)
Taxation		**23 919**		70 051	96 988
Loss for the period		**(33 751)**	(94)	(550 383)	(804 609)
Other comprehensive income					
Items that are or may be reclassified to profit and loss					
Foreign currency translation differences[1]		**(43 301)**		(35 997)	(19 905)
Total comprehensive income for the period		**(77 052)**	(87)	(586 380)	(824 514)
Basic loss per share (cents)[2]	9	**(5.9)**	(95)	(127.6)	(160.6)
Basic diluted loss per share (cents)[2]	9	**(5.9)**	(95)	(127.6)	(160.6)

[1] Foreign currency translation differences are largely due to strengthening of the Tanzanian Shilling compared to SA Rand.

[2] The comparative basic loss per share for December 2020, have been restated in terms of IAS 33.28 as a result of the rights offer in August 2020.

Condensed consolidated statement of cash flows

R000	**Six months ended 31 December 2021**	Six months ended 31 December 2020	Audited Year ended 30 June 2021
Operating profit/(loss) before working capital changes	**58 253**	(65 472)	(118 729)
(Increase)/decrease in working capital	**(45 130)**	(3 394)	21 468
Cash generated by/(utilised in) operations	**13 123**	(68 866)	(97 261)
Interest received	**597**	6 893	7 746
Interest paid	**(24 863)**	(25 373)	(45 350)
Interest paid – leases	**(63 553)**	(62 984)	(119 031)
Taxation refunded	**36 561**	1 312	4 052
Distribution to employees by the 10th Anniversary Employee Share Trust	**–**	–	(703)
Cash outflow from operating activities	**(38 135)**	(149 018)	(250 547)
Cash utilised in investing activities	**(2 432)**	(30 828)	(77 288)
Investment to maintain operations	**(2 432)**	(1 345)	(2 709)
Investment to expand operations	**–**	(29 483)	(74 579)
Cash inflow from financing activities	**57 787**	157 750	265 310
Capital repayment of lease liability	**(12 213)**	(4 966)	(15 190)
Net proceeds from rights offer	**–**	1 147 235	1 145 593
Proceeds from sale of rights	**–**	–	66 396
Purchase of treasury share in rights offer	**–**	–	(66 396)
Proceeds from interest-bearing borrowings	**70 000**	60 000	180 000
Repayments of interest-bearing borrowings	**–**	(280 000)	(280 000)
Repaying of B-BBEE interest-bearing borrowings	**–**	(44 120)	(44 120)
Payment of B-BBEE B preference share dividends accrued	**–**	(371 099)	(371 099)
Redemption of B-BBEE preference shares	**–**	(349 300)	(349 300)
Repurchase of ordinary shares	**–**	–	(574)
Net increase/(decrease) in cash and cash equivalents	**17 220**	(22 096)	(62 525)
Net cash and cash equivalents at beginning of the period	**(69 497)**	(19 025)	(19 025)
Reclassification of other investments to cash and cash equivalents	**–**	7 900[1]	15 800
Effect of movements in exchange rates on other investments	**–**	1 280	–
Effect of movements in exchange rates on cash held	**1 292**	(3 315)	(3 747)
Net cash and cash equivalents at end of the period	**(50 985)**	(35 256)	(69 497)

[1] *The reclassification of other investments to cash and cash equivalents relates to the portion of deposits previously held with Chase Bank, Kenya, which was placed into receivership and which have now been released back to depositors.*

Condensed consolidated statement of changes in equity

R000	Stated capital	Treasury shares	Other reserves	Retained earnings	Total
Balance at 30 June 2020	179 503	(514 381)	190 511	712 683	568 316
Total comprehensive income for the period	–	–	(35 997)	(550 383)	(586 380)
Loss for the period	–	–	–	(550 383)	(550 383)
Other comprehensive income					
Foreign currency translation differences	–	–	(35 997)	–	(35 997)
Transactions with owners, recorded directly in equity	1 145 458	–	(52 944)	102 781	1 195 295
Issue of new ordinary shares	1 145 458				1 145 458
Proceeds from sale of rights	–	66 396	–	–	66 396
Purchase of treasury shares in rights offer	–	(66 396)	–	–	(66 396)
Reclassification of equity of portion of BEE shareholder's loan and BEE share-based payment reserve	–	–	(52 781)	52 781	–
Gain on waiver of BEE shareholder's loan	–	–		50 000	50 000
Share compensation reserve	–	–	(163)	–	(163)
Balance at 31 December 2020	1 324 961	(514 381)	101 570	265 081	1 177 231
Total comprehensive income for the period	–	–	16 092	(254 226)	(238 134)
Loss for the period	–	–	–	(254 226)	(254 226)
Other comprehensive income					
Foreign currency translation differences	–	–	16 092	–	16 092
Transactions with owners, recorded directly in equity	(244)	3 453	(5 051)	(898)	(2 740)
Issue of new ordinary shares	135	–	–	–	135
Repurchase of ordinary shares	(379)	–	–	(195)	(574)
Incentive scheme shares	–	3 453	(3 453)	–	–
Share compensation reserve	–	–	(1 598)	–	(1 598)
Distribution to employees by 10th Anniversary Employee Share Trust	–	–	–	(703)	(703)
Balance at 30 June 2021	1 324 717	(510 928)	112 611	9 957	936 357
Total comprehensive income for the period	**–**	**–**	**(43 301)**	**(33 751)**	**(77 052)**
Loss for the period	**–**	**–**	**–**	**(33 751)**	**(33 751)**
Other comprehensive income					
Foreign currency translation differences	**–**	**–**	**(43 301)**	**–**	**(43 301)**
Transactions with owners, recorded directly in equity	**–**	**3 259**	**(1 122)**	**–**	**2 137**
Share compensation reserve	**–**	**–**	**2 137**	**–**	**2 137**
Incentive scheme shares	**–**	**3 259**	**(3 259)**	**–**	**–**
Balance at 31 December 2021	**1 324 717**	**(507 669)**	**68 188**	**(23 794)**	**861 442**

Notes to the condensed unaudited consolidated interim financial statements

for the six months ended 31 December 2021

1. Basis of preparation for the condensed unaudited consolidated interim financial statements

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2021, have been prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports and the requirements of the Companies Act of South Africa. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the condensed unaudited consolidated interim financial statements are in terms of IFRS, and are consistent with those applied in the previous consolidated annual financial statements. The condensed unaudited consolidated interim financial statements should be read in conjunction with the audited annual financial statements for the year ended 30 June 2021.

The condensed unaudited consolidated interim financial information has been presented on the historical cost basis, and is presented in Rand thousands which is City Lodge's functional and presentation currency.

These condensed consolidated interim financial statements have been prepared under the supervision of Ms D Nathoo CA(SA), in her capacity as chief financial officer.

2. Significant judgements and estimates

The preparation of the condensed consolidated financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience, consideration of market predictions at these unprecedented time 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, in addition to information going concern set out in note 12, 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:

Short term incentive (STI) schemes

In an effort to preserve cash in the short-term, no participation is being offered in STI schemes. Instead, some of the STI opportunity is offered as a long term incentive (LTI) under the new conditional share plan (CSP).

Long term incentive (LTI) scheme

Equity-settled share appreciation right (SAR) scheme

Given the preference for the use of full value instruments as opposed to SARs, SARs have been discontinued and replaced with the new CSP comprising full value shares. All historic SAR awards have been cancelled.

2. Significant judgements and estimates continued

Measurement of share-based payments

Conditional share plan (CSP) – FY22 award

With effect from 1 July 2021, a new LTI, the CSP has been implemented. The CSP is the only LTI instrument offered for FY22. From FY23 onwards, when it is anticipated that STIs schemes will be re-introduced, it is envisaged that the executive directors, Exco and senior management will be the only participants to continue to participate in the CSP while participation in the Retention Share Plan (RSP) will be subject to remuneration committee discretion.

The performance conditions comprise a combination of measures that need to be achieved during the performance period and currently include debt covenant measures, occupancy levels, free cash flow and EBITDA. Each performance condition is measured over the performance period with vesting threshold (30%), target (65%) and stretch (100%) taking place. Linear vesting applies between the levels.

The conditional rights will vest in equal annual tranches of one-third each, subject to the achievement of the performance conditions and settlement is subject to an affordability measure relative to free cash flow. The first third will vest one year after award, The second and final third will vest two and three years after the award but will upon vesting automatically be subjected to a holding period of two and one year respectively, meaning that the shares will be released four years after the award date subject to the affordability criteria being met. Settlement of vested awards is subject to an affordability measure being met. In the event that the value of the vested shares to be settled exceeds the affordability measure, only a pro rate portion up to the affordability measure will settle. The unsettled portion of vested shares can be retested every six months. Any portion of the vested shares that has not been settled within 24 months of the respective vesting dates will lapse.

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.

The fair value is measured using American binomial valuation model. Expected volatilities are 51% 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 were incorporated into the measurement value.

Equity-settled 10th anniversary employee share plan

The group plan provides for an annual share distribution equal to half of the financial year's capital growth, if any, of the portfolio of City Lodge shares held by the trust. The distributions to eligible employees (employees in the service of the group for at least one year) are equity-settled three months after year-end, provided that the portfolio's market value at year-end exceeds the market value at the previous year-end. Entitlements are forfeited if the employee leaves the group's service before 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.

Measurement of deferred tax assets and liabilities

The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using taxation rates enacted or substantively enacted at the reporting date.

Notes to the condensed unaudited consolidated interim financial statements continued

for the six months ended 31 December 2021

3. Impairment of property, plant and equipment and right-of-use assets

During the six months ended 31 December 2021, the impairments were considered, and no additional impairment of property, plant and equipment and right-of-use assets were considered necessary. In the prior six month period to December 2020, the group impaired property, plant and equipment by R269.6 million and right-of-use assets by R24.3 million, mainly on the East Africa hotels. The disposal of East Africa has since been agreed and the operations are disclosed as held for sale and recorded at fair value less costs to sell.

During the last six months, the operating results have been materially aligned to the forecasted cashflows used to calculate value in use in the prior year. The Covid-19 recovery and the economic performance assumptions of the group remains largely unchanged. There have been no material trigger events, not previously considered over the last six months.

4. Disposal groups held for sale

In July 2021, the group entered into two sale of share transactions for the disposal of 100% of shares in Fairview Hotel Limited in Kenya, the disposal of 100% of shares in CLHG Tanzania Limited in Tanzania, and the settlement of shareholder loan claims for an aggregated gross consideration of R460 million. The operations of these companies are included in the 'Central office and other' segment for operational purposes, and 'Rest of Africa' segment for geographical information as reported in the Segment analysis. Management has considered the requirements in IFRS 5 for disposal groups to be classified as available for sale and are satisfied that they have been met at 30 June 2021, and continue to be met as at 31 December 2021. Accordingly, these subsidiaries are presented as disposal groups held for sale. The proposed sale will not result in the disposal of a segment of the group or the disposal of a major service line. As a result, the disposal has not been considered to be a discontinued operation. The disposals are subject to the fulfilment of customary conditions precedent, including approvals or consent from competition or anti-trust authorities to the extent legally required.

As at 31 December 2021, the disposal groups comprised assets of R456.6 million less liabilities of R91.6 million, detailed as follows:

R000	As at 31 December 2021	As at 30 June 2021
Assets held for sale	**456 608**	453 965
Property, plant and equipment and intangible assets	**359 918**	359 918
Right-of-use assets	**53 770**	53 770
Deferred tax assets	**23 033**	20 093
Current assets	**8 267**	5 507
Cash and cash equivalents	**11 620**	14 677
Liabilities directly associated with assets held for sale	**(91 614)**	(83 702)
Lease liabilities	**(69 279)**	(61 101)
Trade and other payables	**(9 528)**	(9 794)
Deferred tax liabilities	**(12 807)**	(12 807)
Net assets held for sale	**364 994**	370 263

As at 30 June 2021, impairment losses totalling R345.5 million were recognised on assets held for sale.

R000	As at 31 December 2021	As at 31 December 2020	(Audited) As at 30 June 2021
5. Interest-bearing borrowings			
Secured bank loan			
The Loan C is a revolver facility of R400 million (2020: R300 million) in total and bears interest at the one, three or six-month JIBAR plus 2.75 (2020: 2.10) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 31 August 2023.	**400 000**	330 000	**350 000**
The Loan D is a term loan facility of R200 million (2020: R450 million) in total and bears interest at the one, three or six-month JIBAR plus 2.65 (2020: 2.10) percentage points, depending on the election made upon drawdown. Outstanding loan capital is repayable by 31 December 2022.	**200 000**	200 000	**200 000**
The Loan E was a term loan facility of R200 million secured in June 2020, and repayable on completion of the rights offer. R30 million was drawn in August 2020. The loan was settled in full from the proceeds of the rights offer.	**–**	–	**–**
The Loan F is a term loan facility – bridge to asset sale of R100 million in total and bears interest at the one-month JIBAR plus 3.25 percentage points. Final maturity is 21 September 2022.	**100 000**	–	**100 000**
The Loan G is a revolver loan facility of R100 million in total and bears interest at the one-month JIBAR plus 3.25 percentage points. Final maturity is 21 September 2022. Interest repayments are made according to the interest selected on drawdown notice.	**20 000**	–	**–**
The loans are secured over land and buildings with a carrying amount of R 315.7 million (June 2021: R320.6 million) and have been guaranteed by City Lodge Hotels Limited.			
The original debt covenants have been waived for all measurement periods up to and including September 2022. The new loan to value covenant has been met for all measurement periods during the six months ended 31 December 2021.			
	720 000	530 000	**650 000**
Less: Amounts to be repaid within one year	**(320 000)**	–	**–**
Non-current liabilities	**400 000**	530 000	**650 000**

Notes to the condensed unaudited consolidated interim financial statements continued

for the six months ended 31 December 2021

	R000	As at 31 December 2021	As at 31 December 2020	(Audited) As at 30 June 2021
5.	**Interest-bearing borrowings** continued			
	The movement in interest-bearing borrowings during the year is as follows:			
	Balance at beginning of year	**650 000**	750 000	**750 000**
	Borrowings raised	**70 000**	60 000	**180 000**
	Borrowings repaid	**–**	(280 000)	**(280 000)**
	Interest charged	**23 175**	17 971	**37 125**
	Interest paid	**(21 977)**	(17 965)	**(36 120)**
		721 198	530 006	**651 005**
	Balance of beginning of year – interest	**2 403**	1 398	**1 398**
	Interest accrued included in sundry accruals	**(3 601)**	(1 404)	**(2 403)**
	Balance at end of year	**720 000**	530 000	**650 000**
6.	**Lease liabilities**			
	Opening balance	**1 390 107**	1 388 440	**1 388 440**
	Additions	**–**	–	**234 267**
	Interest costs	**63 553**	62 984	**119 031**
	Lease payments	**(75 766)**	(67 950)	**(134 221)**
	Remeasurement	**–**	–	**(138 140)**
	Effects of movement in exchange rates	**8 537**	(15 227)	**(18 169)**
	Reclassification to liabilities directly associated with assets held for sale	**(8 178)**	–	**(61 101)**
	Closing balance	**1 378 253**	1 368 247	**1 390 107**
	Lease liabilities recognised in the statement of financial position are analysed as:			
	Non-current portion	**1 353 350**	1 350 520	**1 365 591**
	Current portion	**24 903**	17 727	**24 516**
		1 378 253	1 368 247	**1 390 107**

	As at 31 December 2021	As at 31 December 2020	(Audited) As at 30 June 2021
7. Deferred taxation			
Movement in deferred taxation assets			
Balance at beginning of year	**29 102**	56 428	**56 428**
Charged to profit or loss	**2 491**	21 346	**3 407**
Foreign exchange movement	**200**	(5 719)	**(10 640)**
Reclassification to assets held for sale	**(1 621)**	–	**(20 093)**
Balance at the end of year	**30 172**	72 055	**29 102**
Movement in deferred taxation liabilities			
Balance at beginning of year	**28 293**	134 038	**134 038**
Charged to profit or loss	**(21 768)**	(48 906)	**(94 027)**
Acquisition through business combinations	**–**	–	**1 089**
Reclassification to liabilities directly associated with assets held for sale	**–**	–	**(12 807)**
Balance at the end of year	**6 525**	85 132	**28 293**

8. Revenue

The group derives revenue at a point in time, together with its customer reward programme which are recognised as they are redeemed or expire. The group has no contract assets or contract liabilities.

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

R000	Six months ended 31 December 2021	Six months ended 31 December 2020	(Audited) Year ended 30 June 2021
Accommodation	**365 849**	186 641	432 719
Food and beverage	**59 905**	26 325	66 544
Other revenue	**10 258**	2 639	8 553
	436 012	215 605	507 816
Primary geographical markets			
South Africa	**397 284**	201 386	469 791
Rest of Africa	**38 728**	14 219	38 025
	436 012	215 605	507 816

Notes to the condensed unaudited consolidated interim financial statements continued

for the six months ended 31 December 2021

R000	**Six months ended 31 December 2021**	% change	Six months ended 31 December 2020	(Audited) Year ended 30 June 2021
9. Supplementary financial information				
9.1 Headline loss reconciliation				
Loss used to calculate basic and diluted loss per share	**(33 751)**		(550 383)	(804 609)
Impairment loss on property, plant and equipment	**–**		293 854	390 443
Impairment reversal right-of-use assets	**–**		–	(48 945)
Impairment loss on goodwill	**–**		–	10 602
Taxation effect	**–**		(2 927)	(2 665)
Headline loss	**(33 751)**	**(87)**	(259 456)	(455 174)
Headline loss per share (cents)[1]				
– undiluted	**(5.9)**	**(90)**	(60.1)	(90.9)
– fully diluted	**(5.9)**	**(90)**	(60.1)	(90.9)

	R000	**Six months ended 31 December 2021**	Six months ended 31 December 2020[1]	(Audited) Year ended 30 June 2021
9.	**Supplementary financial information** continued			
9.2	**Weighted average number of shares (000's)[1]**			
	Total number of weighted average number of shares in issue	**609 860**	464 384	536 546
	Treasury shares	**(35 394)**	(30 490)	(32 922)
	10th Anniversary employees share trust treated as treasury shares	**(2 821)**	(2 427)	(2 623)
	Weighted average number of shares in issue for diluted and undiluted loss per share and headline loss per share calculation[1]	**571 645**	431 467	501 001
9.3	**Number of shares in issue (000's)**			
	Total number of shares in issue	**609 860**	610 035	609 860
	Treasury shares	**(35 394)**	(35 394)	(35 394)
	10th Anniversary employees share trust treated as treasury shares	**(2 821)**	(2 821)	(2 821)
	Net of treasury shares in issue	**571 645**	571 820	571 645
9.4	**Net asset value per share (cents)**			
	– Net asset value per share	**151**	206	164
	– Net tangible asset value per share	**144**	196	157

[1.] *The comparative headline loss per share and weighted average number of shares for December 2020, have been restated in terms of IAS 33.28 as a result of the rights offer in August 2020.*

Notes to the condensed unaudited consolidated interim financial statements continued

for the six months ended 31 December 2021

10. Subsequent events

The group announced the proposed disposal of its East Africa hotel operations on 23 July 2021, which includes three hotels in Kenya and one hotel in Tanzania for an aggregated gross consideration of R460 million. The disposals are subject to the fulfilment of customary conditions precedent, which includes approvals or consents from competition on anti-trust authorities to the extent legally required.

At the end of December 2021, and January 2022 the transaction received the unconditional approval from the competition commissions in Kenya, and Tanzania respectively. It is anticipated that the sale will complete by April 2022.

The fourth wave of Covid-19 infections and the temporary closure of international borders to flights departing from southern Africa, had a limited impact of the group's operations. However, the relaxing of alert level 1 restrictions since 30 December 2021, has had a positive impact on travel confidence and guest travel during late night hours following the cancellation of curfews.

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

11. Liquidity and funding

The group has assessed and implemented, various liquidity and capital measures to help ensure that the group's business can withstand the prolonged industry recovery period due to Covid-19 and to meet the liquidity, working capital and expenses requirements, including (among others):

- Access to an additional R80 million of available term loan facilities , and R48.4 million of short term overdraft facilities.
- Secured waivers for original debt covenants for all measurement periods up to September 2022.
- Continued cost conservation measures in place, which include reduced salaries and suspension of contract workers, until there is a consistent recovery trend.
- Receipt of proceeds from the sale of the East Africa hotels expected by April 2022.
- The proceeds from the sale of East Africa will be applied to the settlement of the interest-bearing borrowings maturing within the next 12 months.

12. Going concern

The condensed unaudited consolidated interim financial statements for the six months ended 31 December 2021 are prepared on the going concern basis. Based on the cash flow forecasts, funding facilities available and the cost containment measures the group has implemented since April 2020, the directors believe that the group has sufficient liquidity to meet its obligations and continue operations.

The group has incurred a net loss for the six months ended 31 December 2021 of R33.8 million (December 2020: R550.4 million) primarily due to the prolonged impact of the Covid-19 pandemic, the resurgent waves, and the associated government restrictions on travel and gatherings have had a detrimental impact on hospitality over the last two years. Since South Africa moved to alert level 1 restrictions in October 2021, the group has seen a steady improvement in demand for both leisure and business travel. As at 31 December 2021, the group has a net cash and cash equivalents overdraft of R51.0 million (December 2020: R35.3 million), and the current liabilities exceeded its current assets (excluding assets held for sale) by R424.8 million (December 2020: R9.4 million).

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

- The proceeds and planned application of the sale of East African operations
- Continuous turnaround strategic review of all poor performing hotels
- Maintaining the cost containment measures put in place since April 2020, where appropriate, while liquidity remains constrained
- The group has continued access to R80 million available in its existing term loan facility, and R48.4 million available in its short term overdraft facility.
- The waiver of the original debt covenants for all measurement periods up to and including September 2022. The group forecasts that these debt covenants will be met from December 2022.
- Lenders have introduced revised loan to value covenants and liquidity thresholds measured quarterly. The group forecasts continue to meet these new covenant requirements.

The directors have assessed the cash flow forecasts together with the other actions taken or proposed by management and are of the view that the group has sufficient liquidity to meet its obligations.

13. Dividend

Due to the prolonged impact of the Covid-19 pandemic and the resurgence of new waves of infections on the group's operations and revenue, the board has determined that no interim dividend shall be paid in respect of the six months ended 31 December 2021. The declaration of future dividends remains subject to satisfying solvency and liquidity requirements.

The JSE Link to the announcement is https://senspdf.jse.co.za/documents/2022/jse/isse/CLH/ie2022.pdf.

For and on behalf of the board

Bulelani Ngcuka
Chairman

Andrew Widegger
Chief executive officer

25 February 2022

Segment report

The segment information has been prepared in accordance with IFRS 8 Operating Segments which defines the requirements for the disclosure of the financial information of an entity's operating segments.

The standard requires a "management approach" whereby segment information is presented on the same basis as that used for internal reporting purposes to the chief operating decision-maker(s) who have been identified as the group's executive directors. These individuals review the group's internal reporting by hotel brand in order to assess performance and allocate resources. Depreciation for reportable segments is an asymmetrical expense as assets are not classified by segment. The depreciation charge for each reportable segment relates to furniture, fitting and equipment, while the majority of the charge for central office and other relates to hotel buildings. The measurement policies the group uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

Primary segment	City Lodge		Town Lodge		Road Lodge		Courtyard Hotel		Central office and other		Total	
R000	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Revenue	**214 544**	109 120	**59 814**	28 344	**94 667**	58 621	**28 259**	5 301	**38 728**	14 219	**436 012**	215 605
Results from operating activities	**66 407**	(117)	**5 722**	(16 007)	**21 389**	3 479	**(3 028)**	(7 898)	**(59 143)**	(212 436)	**31 347**	(232 979)
Depreciation and amortisation	**5 900**	7 195	**3 756**	4 622	**4 983**	5 866	**2 893**	859	**28 197**	43 374	**45 729**	61 916
Depreciation – right-of-use assets	**–**	–	**–**	–	**–**	–	**–**	–	**45 516**	39 380	**45 516**	39 380
Adjusted EBITDA[a]	**72 307**	7 078	**9 478**	(11 385)	**26 372**	9 345	**(135)**	(7 039)	**14 570**	(129 682)	**122 592**	(131 683)
Land and hotel building rental[b]	**–**	–	**–**	–	**–**	–	**–**	–	**2 337**	956	**2 337**	956
Adjusted EBITDAR[c]	**72 307**	7 078	**9 478**	(11 385)	**26 372**	9 345	**(135)**	(7 039)	**16 907**	(128 726)	**124 929**	(130 727)

Geographic information	South Africa		Rest of Africa		Total	
	2021	2020	**2021**	2020	**2021**	2020
Revenue	**397 284**	201 386	**38 728**	14 219	**436 012**	215 605
Property, plant and equipment (non-current and current)	**1 323 891**	1 377 797	**695 436**	734 377	**2 019 327**	2 112 174
Right-of-use assets (non-current and current)	**891 192**	829 514	**116 218**	83 634	**1 007 410**	913 148

[a] *Adjusted EBITDA represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation and impairment charges. Adjusted EBITDA and adjusted EBITDAR excludes amounts relating to impairments Rnil (December 2020: R293.9 million) which are recorded in the central office and other segment.*

[b] *Land and hotel building rental primarily reflects turnover-based rentals.*

[c] *Adjusted EBITDAR represents earnings after BEE transaction charges but before interest, taxation, depreciation and amortisation, impairment charges and rental.*

Administration

CITY LODGE HOTELS LIMITED

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

REGISTERED OFFICE

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

DIRECTORS

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

**Executive* *†South African and Swiss*

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COMPANY SECRETARY

MC van Heerden

SPONSOR

Nedbank Corporate and Investment Banking, a division of Nedbank Limited